

Public Utilities

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Why Kill the Holding Company?

To do that would, in the opinion of the author, put a stop to a business practice which has been proven successful in every industrial country in the world.

By HERBERT COREY

THE utility companies are on a spot. There is no doubt about that. The public does not like them. The companies may not like to have that stated in print but it is a fact. There is a prospect of punitive legislation ahead. The legislation would be so punitive if some of its sponsors could have their way that after the utility holding companies had been punished—punished for everything the worst of them did and for every bad dream a Congressman may have had—they would then be destroyed. This would bring loss to many of the 3,000,000 investors in the \$13,000,000,000 utility business, but the regulators do not seem to think of that. Meanwhile the government threatens active competition in the

production of power. It is furthering public ownership by every means in its command. Jay Gould had the same system:

"If I can't buy 'em I'll break 'em," he once said of competitors for whom he was gunning.

This article is an attempt to make a fair examination of the present position of the utility holding companies. No one can say precisely what may be done to them, but it is not difficult to see why they are being attacked. The average power user and newspaper reader has been told that the utility holding companies are as crooked as a back street in Naples. He does not differentiate between the good companies and the bad ones. He will not listen when he is told that

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some of them have clean records. He hardly knows what a utility holding company is. In a vague way he thinks it is a swindling device hardly fit for use at county fairs.

THE point I shall try to make in this article is that holding companies are as much of a necessity in the electrical industry as dynamos. Some of them have misbehaved. If you like the sissy Broadway talk they have been baddies. There is enough authority held by the state and Federal bodies to make them behave in the future. Some of their critics object to their bigness. If they are to be pared down in size they will also be pared in usefulness. If they are unfairly treated the user of electricity will suffer right along with the investor in utility securities. The taxpayer should inform himself on the situation. If the regulators guess wrong he will foot the bill.

I shall try to be accurate and fair. Chapter and verse can be given for every statement of fact. I believe the American voter is essentially just and that he will write an unbiased verdict when he knows the truth. I also believe that if he had not gotten angry enough to throw rocks after he learned of the antics of some of the holding company magnates he would have been a man without spunk enough to bat a butterfly. He does not even know that there is another side to the utility holding company story and the side that he has seen has made him sick. To get rid of the rat he threatens to burn down the corn crib.

THE American light and power industry is less than fifty-five years

old. It began with a few small, experimental units, invariably regarded with distrust by the possible customers and as reckless speculations by the conservative investors. Often several of these candle-power affairs were located in the same city. Today it serves more than 15,000 communities. Every resident of the United States is in fact a consumer of electricity. It has 24,000,000 customers, of whom more than 20,000,000 are families. So varied are the services rendered that one company alone has 530 rate schedules, covering every conceivable use. It possesses 50,000,000 horsepower of installed generating capacity and hundreds of thousands of miles of transmission and distribution lines. In the homes 5,000,000 electric refrigerators, 13,000,000 radios, 2,000,000 electric ranges, and innumerable other gadgets relieve drudgery.

In no other country can so large a percentage of housewives touch a button to reduce toil. According to the recent survey of the Federal Power Commission there are nearly 2,000 privately owned and nearly as many municipally owned companies. With few exceptions the municipal companies confine their operations to their own bailiwicks. The preponderant part of the industry is in the hands of the holding companies and their operating subsidiaries.

WITHOUT the holding company this extraordinary coverage could not have taken place. That there would have been expansion is certain. But conditions in the early days prevented either satisfactory or rapid growth. The current was feeble

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by comparison with the power on the wires today. Bulbs glowed a reluctant yellow. The juice was turned off at midnight and on at sunset in many towns. Wires came down and tripped up horses on main streets. The blowing out of a fuse was equivalent to a major operation. Something was forever going wrong on the power plants. Just to make the life of a company manager as unhappy as possible improvements were constantly being reported. He wanted to adopt them but he did not have the money. He could rarely get the money no matter how badly he wanted it.

Even in 1880 Edison's new bulb was described as an inventor's dream. That was only forty-five years ago. The boards of directors of the small local companies discovered something that was harder than carborundum. It was a banker's eye. They peddled their bonds and stocks on the street corners.

MANY an old lady died richer than she expected because she had been unable to resist what the Deacon said to her about his company's bonds. If hard times came along the users in the small towns and cities stopped using, the company went into bankruptcy, and the unfortunate purchasers of its securities suffered under I-told-you-so's. If good times persisted the managers were unable to buy new machinery, replacements,

more wire, generators, the innumerable things that an operating company needs. Local inhabitants could use their funds to better advantage elsewhere. Inhabitants of other localities refused to buy the paper of a company of which they knew nothing engaged in an industry for which they harbored nothing but doubt.

The holding company came into existence not because anyone wanted it but because it had to. Years ago the Federal Power Commission published a report from the General Electric Company in which it hinted at early-day difficulties. The manufacturers of the items the operating companies needed had only the operating companies as customers, and the companies had little money. There must have been a good deal of heroism in business in those days. The new idea that a group of 14-inch necks in Washington knows more about a business than the man who owns it had not yet taken hold. Under present-day rules both the manufacturers and the customers might have been sent to the workhouse for their intolerable courage but in those days they got away with it.

THE manufacturers took the paper of the companies for their goods. Then they tried to sell it. They got absolutely nowhere at all. A bond that could not be sold in Sourball, Missouri, to the residents of Sourball who knew all about the Sourball Elec-



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tric Company did not appeal at all to the bankers in St. Louis. Unless they could get money the manufacturers saw they must cease manufacturing.

Then some one had a bright idea. To be precise about it the idea was a going concern as far back as the Roman empire. Holding companies go back at least that far and perhaps farther. A Sourball bond might never be worth a nickel, but if a pot were made into which bonds were placed from a score of states, representing every sort of community from one depending on straight agriculture to mining or oil wells the average value of the bonds might be pretty high. Nowadays we know this as the diversity of interest.

"We have guarded against every form of risk except the political risk," said the manager of one of the great companies. He did not believe at that time there would be a political risk.

THE holding companies had solved the first part of the financial problem. That is to say they could get the money with which to finance the local operating companies. It had become evident that the industry must constantly expand. An electrical company only ceases to grow when the community it serves is dying. Every new man who comes to town is a potential new customer. More wires must be strung, more current generated, more meters read. The average investment in closely settled communities now is five dollars to each dollar of gross income. The investment runs up to eight and nine dollars where the distances between the users of current are greater. If

these capital costs were to be financed out of profit the rates would be forced impossibly high. Each boost in rates would mean a loss in current consumption. The cheaper electricity could be sold the more of it would be sold. Borrowing was the only way in which the needs could be met. Then another element intruded itself. After a few unfortunate early experiences bond buyers demanded that the owners of the property put in more of their own money. They wanted a greater equity behind their bond dollar.

That led to the issue of preferred and common stocks when a bond issue was put on the market. The holding companies got the stocks in varying amounts. Some of the stocks they sold and some they kept in their portfolios. The industry got the money it must have if it were to continue to grow.

EVERYTHING was growing in those days. It is not to be wondered at that some of the leaders in the electrical utilities could see no probable end to the growth. Some of them overplayed their hands, for they did not foresee the depression that hit the United States. Yet the industry itself did not make this mistake, for the consumption of current has continued to increase and rates to decrease.

The holding companies did not confine their activities to finance. They set up engineering departments which led the world in research. The superiority of America's electrical service is largely due to that fact. They furnished their component companies with legal service. Their tax experts

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Holding Company a Business Need

"THE holding company came into existence not because anyone wanted it but because it had to. . . . The new idea that a group of 14-inch necks in Washington knows more about a business than the man who owns it had not yet taken hold. Under present-day rules both the manufacturers and the customers might have been sent to the workhouse for their intolerable courage but in those days they got away with it."



were the best in the business. They were able to get the lowest market price on the things they bought, all the way from car wheels to insurance, because they bought in tremendous quantities. The savings realized were turned back to the operating companies. They furnished a ladder to ambitious youth. The youngster who might have risen to a \$2,400 a year job in Sourball discovered that in the service of the holding company he could rise just as high as he could climb.

UTILITY companies were not the only ones to make use of the holding company idea. This may be contrary to the popular view, which regards a holding company as a device of the electrical Satan. Witch doctors nowadays say to their voting patients:

"Say 'Holding Company'—slowly."

And when the voter says it the doctor looks blue and prescribes the drastic medicine of over-taxation to be followed by elimination and government ownership. Yet holding com-

panies are not public enemies in any other country in the world. The great industrial names with which the investor in the United States is familiar are all those of holding companies—in steel and copper and bread and beans and canned goods and pork products and telephones and railroads. The utility holding companies were not only successful in financing their operating subsidiaries and in improving their methods of management and saving them money on purchases but they are responsible for the betterment of service to the current user. Of course, they made a charge for it. Not until the idea was sold to this country that a business man should be a combination evangelist and Boy Scout was it ever suggested that a man who did good, honest work should not be paid for it. Even the Good Book says so:

"The laborer is worthy of his hire."

NOT long ago I visited a nice little city which was served by an independent company, not affiliated with any one of the holding compa-

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nies. Every one agreed that it had been giving good service. The rates were no higher than those in the neighboring towns, the manager was a handshaker, only local men and women were employed, and there was a real disposition shown by the company officials to be helpful. Then the nice little city discovered what a mean old lady Dame Nature can be. In a few months almost everything happened. There was a flood and a tornado and a big fire, followed by a bank failure and the closing down of a factory.

"Our electrical service nowadays is rotten," I was told. "It isn't anybody's fault. The company just hasn't got the money to fix things up. . . ."

But if that company had been controlled by a holding company things would have been fixed up. I am not trying to wreath any garlands on the holding companies. They made mistakes. Some of their leaders got hog-gish. That part of the picture will be taken up later. But one of the primary reasons why holding companies, in one form or another, must continue to exist is that Americans have become used to the finest electrical service in the world and they will continue to demand it. If the company in the nice little city had been owned by a holding company the plant would have been repaired and the wires restrung and the flooded houses would have been rapidly re-furnished with electricity and all that would have been done almost before the flood waters had receded and the wind stopped roaring.

AN extraordinary phase of the position in which the holding com-

panies find themselves today is that it is precisely this widespread efficiency that has softened up their heel of Achilles. The voter who knows nothing else about the utility situation is convinced that there is a Power Trust. He knows that when the electric company in his town gets into trouble men and money come from the outside and fix it up again. He has been shown a wall map on which the entire country is covered by an interlacing of red and black lines, all of which tie into each other and the whole.

"There is the tangible proof of the existence of the Power Trust," shout the politicians, breathing fire and hot air from their nostrils.

The fact is that for the financial reasons which have been set out the holding companies diversify their risks by stretching their lines as far as possible. A company which confined its holdings to the operating companies in a single region of the United States, wide and rich and impregnable as that region might seem to be, would not be in as sound a position as it would be if it owned operating companies in half a dozen regions. It would be in a still sounder position if each of its cities were connected by transmission lines with its neighbors on either side.

ONE striking feature of the American electrical system is its inter-connection of power. Perhaps this is its most striking feature. Much has been heard of the English "grid" and yet that grid was copied from the American plan after English engineers had studied it on the spot. It is not feasible to transmit power economical-

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ly for a distance of more than 250 miles, or for 300 miles under the most advantageous conditions. A company could not send its current from Passamaquoddy to Chicago, for example. But by hooking up the intermediate stations, each receiving from the station at a practical distance and transmitting to the next station on the line, it is possible to make certain that there shall be no failure anywhere. That wall map of which so much has been heard is in fact the evidence that there need be no dark town anywhere in the United States instead of being a proof of demoniac possession. The various holding companies have interchanging arrangements with each other. Only here and there an independent company or a municipal plant is out of the net.

If the holding companies are destroyed, it seems evident that two consequences are probable. One is the crippling of this system of interconnection of power, now obtained through the holding companies. This may not prove to be the case. It would certainly be possible for the forcibly separated operating companies to grant each other aid in emergencies, although the operation of such exchange might be more bungling than at present. Nor is there any physical reason apparent why the present plan might not be continued.

ELECTRICAL power cannot be stored. It must be made fresh and fresh as it is used. An operating company must be able to meet the most unexpected demands. Some years ago the conjunction of a heavyweight championship fight and a rain storm threw the heaviest burden on the New York facilities ever registered during the early hours of the evening. No one had anticipated it but there was not the slightest failure in service. The peak hour in one city may not be the peak hour in its neighbor to the north. It is consequently feasible for the plant carrying the lightest load to help its neighbor. There is only one reason why this plan might slacken in effectiveness if the holding companies were broken up and that reason is to be found in human nature. Four thousand managers would be called on to make the deals instead of—say—forty.

On the financial side it is apparent that if the holding companies are wiped out each independent plant must make its own arrangements for borrowing money. Sourball would be on its own again. It would be just as difficult for the management in Sourball to sell its unbacked bonds and stock today—for the reasons previously stated—as it was when the holding companies first came into existence in the utility field.



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IT will also be as imperatively necessary in the future that the operating companies shall be able to get money for extensions as it has always been in the past, unless American communities are to be subjected to an AAA birth control processing. With the holding companies out of the way the only source from which this needed money could be obtained is the government.

The destruction of the holding companies would amount to an acceptance of the principle of government ownership.

Public ownership, by and large, has not been a success in this country. At some later time I hope to go into this more fully.

It is enough to say here that out of approximately 4,000 municipally owned plants which have been organized in this country, approximately one half are not in use today.

There is no desire here to blink the fact that justified criticisms have been made of individual holding companies, but it is difficult to see that criticism of the holding company plan is justified. Things that stand the test of centuries are usually practical even if they are not sanctified. In other words, they work.

ATTACK was centered on the utility holding companies in the Rayburn-Wheeler Bill, but the way was left open for a similar attack on holding companies in all other lines. This is in fact a reversal of a business practice that has been proven successful in every industrial country in the world. One of the oddities of the situation was that for a long time no one was able to learn the names of

the authors of the Rayburn-Wheeler Bill. That was more than odd. It was fantastic.

So far as the average voter is concerned criticism of the holding companies is centered on a very few points. Some of them ran hogwild in the stock market under the influence of the boom that busted. No one will offer to defend them. It is not a defense to say that leaders in other industries did the same thing. Most of the men who led in the market gambling have paid for their folly. That is not offered in mitigation. If any plan can be devised to insure the speculatively inclined men against stock-market losses it will be welcomed. It certainly will be more difficult to get in over head and ears in the next boom because marginal requirements have been increased by Federal action. It will probably still be possible to lose one's shirt if the market sours over-night.

COMPLAINT has been made that some holding companies issued securities not based on sound values. That might not have been heard if the business collapse had not come along. Perhaps the complaint is well founded in any case. At all events the newly created Securities and Exchange Commission has been given powers to minimize that risk in the future. It will not permit the issuance of securities unless they seem to be well backed, but the commission puts stress on the fact that values often change. What used to be a gold dollar is only worth 59 cents today.

Along with this is the criticism of the pyramiding of the corporate securities of some groups. In some in-

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Reversal of Successful Business Practice

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stances no defense appears to be offered. Holding companies are piled on top of each other and linked crosswise until the Philadelphia lawyer himself would be puzzled by the structure. Some means should be found to prevent the repetition of this skulduggery. Perhaps no one thing has done more to dirty the utility plate than this deliberate puzzlement of the investigator and the investor. Yet it must be remembered that the complained-of complexity has been produced in many cases—perhaps in most cases—by accident rather than by design. In buying control of a company or a group it has been necessary to acquire it as is, and the as is phrase often covered a multitude of previous and intricate transactions. It should be said that the managers of the various holding companies have been clearing up this situation as rapidly as possible.

THE customer has been told that as a class he is paying excessive

rates. This is unquestionably true in many instances. There is sufficient authority vested in the state commissions to make the corrections which are imperatively necessary if popular resentment is not to continue. It should be borne in mind that conditions differ so widely between regions and states and localities that rate-making is necessarily a local process. No yardstick can be created in the Chicago area which could measure costs in Maine. Fault has been found with the charges imposed on the operating companies for the services rendered by the holding companies. The Supreme Court has ruled that the holding companies are entitled to charge the true cost of their services. The court did not rule that they are not entitled to a reasonable profit. Under other decisions it is certain that if they were discovered making more than a reasonable profit they would be compelled to put it back.

Nothing more infuriates the voter and ratepayer than the suspicion that

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the rate base has been inflated by dishonest write-ups. He should be infuriated by anything of that sort. He is something less than a man and a citizen if he does not resent being gouged. But a write-up is not always what it seems.

IN a recent case it was shown that properties were purchased for a comparatively few thousand dollars and then shuffled from hand to hand, each time at increasing figures, until they finally wound up in the possession of the utility at an unconscionable figure. The Supreme Court and the lower courts have ruled against trickery of that kind in the most uncompromising style. Rates are based by the rulings of the state commissions and the decisions of the court on the fair value of the property used and useful.

The courts have also held that the utilities are entitled to return on their rate base the true value of the used and useful property. If a utility buys for \$50,000 a desirable site and the city so moves away that it is only salable for \$10,000, the utility must stand the loss:

"The community," said the Supreme Court in effect, "must not be expected to underwrite the company's losses."

The most widely heard complaint of the utility industry is that its members are charging rates for current in order to obtain dividends on their watered stock. This is completely absurd and yet it is very generally believed.

THE ruling of the commissions and the courts restricts the rate-making base to the true value of the property used and usable. The value is arrived at, according to the Supreme Court, by discovering—

"The weight to be given to actual cost, to historical cost, and to cost of reproduction new" in the light of the facts of the particular case.

Chief Justice Hughes wrote that decision and he is now fairly well accepted as a liberal. It does not leave any room for the contention that watered stocks or inflated bond issues have any bearing on the rates to be charged the user of current. The fact remains that the rates vary so widely in the different parts of the country that the inquirer may properly look on many of them with cynicism. A thorough-going and impartial inquiry should serve a good purpose in disclosing the truth. There is sufficient power in the hands of the state commissions to make the necessary corrections.

The weakest point in the case for the utilities and the holding companies is that the industry as a whole bears the burden of the sins of a few companies and a comparatively few individuals. The strongest point is that the 3,000,000 investors in utilities have awakened to the fact that their investments are being threatened by political action. Carloads of letters and telegrams were dumped on Congress during the hearings on the Rayburn-Wheeler Bill. Three million voters might conceivably be wrong, but they could never be negligible.



Public Utility Operation under the Soviets

A business, 100 per cent nationalized, the customers of which have to take the service whether they like it or not

By S. M. RIIS

THERE are two general classes of authors who have "written a book about Russia" for American distribution. They are namely: American writers and Russian writers. This distinction is not made facetiously. There is a real difference in the concept of the average American, or for that matter, the average non-Russian, writing about conditions under the Soviet rule and Russian writers who live under it from day to day and know intimately how things are done instead of how they ought to be done according to the theoretical Marxian pattern.

American writers frequently approach Russia with the preconceived impression that it is designed according to Marxian theory in every detail. A grave error in consequence runs throughout their writing even after they are made aware by the facts that the Soviet government has had to

make many revisions in the theoretical plan of communistic government. They assume, for example, that Russia has abolished the "profit motive," and have substituted or attempted to substitute, as an incentive for individual effort, social honors, political prestige, etc. Accordingly, our non-Russian writers gravely concern themselves with discussion over the problems of whether or not the Russian people will be content to go on working only to be "paid off in brass buttons."

THE truth of the matter is that the profit motive is very much alive in Russia today. It is an integral part of the Soviet program. True, it is greatly modified as compared with capitalistic practice. A large accumulation of money by individuals is very difficult. The creation of hereditary estates is just about impossible.

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Nevertheless, the Russian worker is paid, not only in roubles, but in food, clothing, and lodging, according to his ability and efficiency.¹ He may even save money and invest it in tax-free Soviet government securities. It is possible for him to create over a fair period of personal service a sufficient fund to enable him to retire and spend the evening of his life in comparative comfort. Thus does Soviet Russia reward the faithful, industrious, and thrifty worker.²

A clear understanding of this situation is necessary before any discussion of how public utilities in Russia are operated and regulated can be attempted, because the management of all Russian industry is so inextricably interwoven with the Soviet program for compensating the workers.

THE term "public utility" in Russia does not, of course, mean what it means in America. There is no distinction, legal or otherwise, between business "charged with a public interest" and subject to governmental regulation, and private business not subject to such intimate regulation. In Russia *all business* is not only regulated but owned and operated by the Soviet government. However, to make for better understanding by American readers, let us assume that the term "utility" for the balance of this article embraces the kind of business enterprise that is known as a public utility business in America—gas, electric, telephone, water, heating, and rail or bus or water carriers.

ALL utility service in Russia has been 100 per cent nationalized. There is absolutely no survival of

private ownership in such industry as there is, for example, in agriculture where the government has permitted a small proportion (from 10 to 12 per cent) of outlying farms to remain under private ownership subject to strict regulation of the district government agricultural agents.

This fact may at first glance eliminate many controversial issues which usually dominate any discussion of utility regulation. What is there, you say, left to regulate under such a system? Certainly not rates, nor service, nor security issues, nor holding companies! And yet, on closer approach, we see that nationalization of the public utility services only adds many new, interesting, and complicated problems of regulation. Sociological and other factors are brought into play that never arise before our busy American public service commissioners.

FIRST of all let us get some idea of the nature and development of utility service in Russia. Gas service we can rule out in the beginning because it is so limited. In pre-war Russia there were small plants in Moscow, Leningrad, Kharkov, Odesa, and Baku. These have been improved to some extent but distribution is not comprehensive in these cities and domestic or residential gas service for family cooking is almost unknown. There is in Southern Russia considerable natural gas but so far it has been used only by local industries, because piping to the urban centers is such an expensive proposition. For the present and for the immediate future, the Soviet government is stressing electrical rather than gas

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Development under the Five-year Plan

	1928	1932	Ratio of 1932 to 1928 Per Cent
I. WATER SUPPLY SYSTEM			
Number of cities with water systems	293	366	124.9
Number of buildings served (thous.)	128.5	182.6	142.1
Length of water conduits (km.)	8,288	10,570	127.2
Amount supplied annually (mill. cu. meters)	296.5	585.0	197.3
II. SEWAGE SYSTEMS			
Number of cities with sewage systems	35	55	157.1
Number of buildings served (thous.)	30.5	52.1	170.8
Length of conduits (km.)	1,831.8	2,596.0	141.8
III. PUBLIC BATHS			
Number	737	1,000	135.7
Capacity	110,000	140,000	127.3
IV. STREET-CAR SERVICE			
Number of cities	39	50	128.2
Number of street cars	4,800	7,795	162.4
Passengers carried (mill.)	1,640	5,200	356.0
V. BUS SERVICE			
Number of cities	40	117	292.5
Number of busses	466	1,455	312.2
Passengers carried (mill.)	119.5	305	257.1
VI. ELECTRIC SUPPLY			
Electricity consumed for domestic needs (mill. kw. hr.)	941	1,760	187.0

development, and so no new gas distribution plants have been attempted.

Electrical development has come on at a great rate. In Czarist Russia only 10 to 15 per cent of the towns had electricity; now 80 per cent have electric supply and street lighting has been greatly improved.

HYDROELECTRIC development has been intensely promoted. There is a State Planning Board which has made surveys for almost every sizable waterfall in the country—even those in remote regions far from present possible need. Dniestrostroy, the most noted project, is already in operation. Two more dams on the Volga river (at Yaroslavl and Gorki) and one on the Kama river (at Perm)

are now under construction. When completed they will have a capacity of about 1.5 billion kilowatt hours each per year. The construction of the Volga hydroelectric stations will have enormous significance in the development of the national economy. They will be located in old industrial regions, comparatively poor in fuel resources, and more than ready to substitute hydro power for that produced by steam. The development of the rivers will add greatly to the facilities of transport of both the Volga and Kama rivers.

In Czarist Russia the telephone and telegraph service was both crude and limited. During the first Five-year Plan the total length of lines in the interurban telephone and telegraph

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services reached 1,480,000 kilometers in 1932 as compared with 504,000 in 1913 and 890,000 in 1928. The combined capacity of the city telephone exchanges rose from 290,000 in 1928 to 482,000 in 1932. A completely new system of automatic telephone exchanges with a capacity of 77,000 numbers has been created in Moscow. The percentage of village Soviets having telephone communication has grown from 11.7 in 1929 to 37.2 in 1932.

A RECITATION and description of similar developments during the Five-year Plan of other forms of utility service might prove tiresome. The whole situation can be taken in more readily through the table form as shown on page 523.

So much for the manner in which utilities have developed in Soviet Russia. Now let us see how they serve the Russian citizen. A bare statement of population figures will readily show that, notwithstanding the splendid results obtained by the Soviets in increasing their municipal utility facilities, the demand is far greater than the available supply and there is still much more to be done before the average Russian citizen may enjoy service even approaching the American standards. In 1932, the Russian population was 165 millions—23 per cent (38 millions) of which dwelt in cities. It is important to remember that the Soviet rule has resulted in a sharp increase in proportionate urban population because in 1928 only 17.9 per cent of the Russian population was urban. This means necessarily that cities, both new and old, are overcrowded by the steady

migration from the farms to the cities. For example, in 1932, Russia's 7,795 street cars carried 5,200,000,000 passengers. During the same year her 1,455 busses carried 305,000,000 passengers. The subway now nearing completion in Moscow is expected to relieve intense traffic congestion, but it is a routine scene to see a Russian street car go down the street with people crammed into every available cubic inch, hanging on the outside to every possible protruding object, and many sitting on the roof.

THE same condition is apparent when we compare total electric capacity with population figures. That is the reason for the recent published report that the Soviet officials had discouraged the unnecessary use of electricity by the workers in their quarters. This may have seemed strange and amusing to some American readers, in view of the efforts constantly made by American utilities to have their customers use as much service as they possibly can. The reason, of course, is that the Soviet government's problem is to make the available supply go around as far as possible, which means that conservation is necessary in certain sections in order that more customers may be served.

In the matter of service preference, it is the industrial demand which must first be satisfied with available power supply, because the Soviets feel that it is more important that the industrialization program shall proceed, even though the individual workers may have to go without accommodations temporarily. Appliances are beginning to be distributed.

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There is only a slim selection. It was but two years ago that electric appliances were made in Russia for the first time in its history.³ Less than one per cent of the demand for appliances can be filled from present inventories.

TELEPHONE service is somewhat better. Where exchanges have been installed almost anyone can have a telephone put in. The service is generally quite efficient, especially when compared with telephone service in other European countries. Of course, like every other municipal facility in Russia, the waiting list for telephone installation is always quite large.

Water and sewage services are still very primitive compared to American standards. There is no such thing as individual plumbing for the average worker's quarters. Most city workers live in large apartment houses. In Moscow and Leningrad, they must not occupy more than so many square feet, which means that a whole family, sometimes two, may have to occupy one large room divided with curtains and screens. Each house has one bathroom and a number of community water outlets. About once every fortnight, if the premises is fortunate enough to have central heat-

ing, the water is heated and the residents are given notice that they can have a bath if they are lucky enough to get in the bathroom while the water is still hot. Only a fraction are successful and the balance must go to the community public bath houses, of which there are only about a thousand in the whole country to serve an urban population of over 38 millions!

THOSE who believe that traction transportation is doomed to ultimate extinction in favor of the more flexible transportation service afforded by busses may wonder at the Russian practice of installing street railway systems in the newly built cities. The Russians have found, however, that the tramcar still has many advantages over the bus for mass transportation. Russian highways are generally very bad and the lack of paving material throughout the country makes highway and city street improvement very difficult, even though the Soviets have done wonders with what material they could obtain. As a result the smooth roadbed of rails is preferred to the bumping, bouncing rides on the busses, although neither is disdained by any means.

Regulation of electric service in Russia is under the Glavelektro, a central governing board which is re-



Q "THE truth of the matter is that the profit motive is very much alive in Russia today. It is an integral part of the Soviet program. True, it is greatly modified as compared with capitalistic practice. A large accumulation of money by individuals is very difficult. . . . Nevertheless, the Russian worker is paid, not only in roubles, but in food, clothing, and lodging, according to his ability and efficiency."

PUBLIC UTILITIES FORTNIGHTLY

sponsible directly to the Council of People's Commissars. The Federal agency has departments in the various republics and provinces and it not only plans the electric development, but constructs, operates, and directs the service. Getting customers for a new plant is no problem in Russia. Everything is done according to plan. Here is, let us say, a little village of 600. According to population trends, it is calculated that it will have 1,200 in 1940. When it has 1,200, the community will rate a small distribution system and so the village of X is put down for a power plant in 1940, and when 1940 comes the plant will not only be built but the whole town electrified. If the workers get ahead of their schedule the town of X may get its plant in 1938, or even in 1937.

SINCE most of the city workers pay for combined quarters which include housing, bedding, lighting, heating, etc., it is difficult to say what they pay for their electric service. Sometimes the workers are allowed combined quarters as part of their wages, which means the industry which employs them pays for their quarters and pays them a wage over and above for their other needs and recreation. The tendency now, however, is more towards the "profit motive" which means that workers are paid stipulated wages which they may disburse according to their desires.

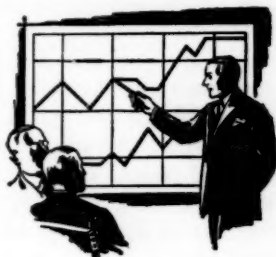
This leads us to the interesting question of "utility rates" in Russia which, of course, are part of the "rates" which the workers pay for their combined quarters. What a worker in Russia pays for anything is more or less in proportion to what

he makes. It is all part of the general plan of the government to get back every rouble in one form or another paid to the worker, while at the same time permitting him to live as comfortably as the available facilities and his own service to the state will warrant. For this reason, the rouble used in internal Russian commerce has no stated value as a monetary unit. It is merely a token of credit issued by the government to the worker which will allow him to buy only at certain stores according to his rank or position. It may buy a steel worker in Kharkov a dozen meals at the factory catering place and barely buy a pair of wool mittens for a stenographer in Moscow.⁴ This type of currency is unavailable to the foreign tourist in Russia who could not make purchases at the workers' stores even if he had it. It is worthless on the foreign exchange and unlawful to bring it out of the country.

WAGES in Russia vary from 40 roubles a month for the lowest grade worker, to 500 a month for the highest grade. Executives and technical experts may receive as high as 2,000 a month. These wages are adjusted according to the ability, efficiency, and rank of the worker. But a worker in the highest bracket pays about 50 per cent back to the government in various taxes. In addition to this his quarters (including electricity, water, telephone, and other services, if any) cost him more than the cost of living quarters to the lower bracket worker. Thus we see that "rates" for utility service in Russia are adjusted pretty much along the lines of what the customer can afford

Rates Based on Customer's Ability to Pay

"RATES for utility service in Russia are adjusted pretty much along the lines of what the customer can afford to pay. Some public service commissions in the United States have given some consideration to this factor in fixing rates for utility service in areas where consumers have been unusually hard hit by the economic depression, but it is difficult to see how such a rate-making policy could be worked out under a capitalistic system."



to pay. Some public service commissions in the United States have given some consideration to this factor in fixing rates for utility service in areas where consumers have been unusually hard hit by the economic depression, but it is difficult to see how such a rate-making policy could be worked out under a capitalistic system.

ANOTHER point to remember is that the Russian utility consumer has to take service whether he likes it or not, once he is assigned to quarters which include such services. Usually he is more than glad to get the service, but it is in this way that Soviet utility management can plan its load and extension program pretty accurately.

Family life is quite different in Russia because of the Soviet aim to free the women from the "stupefying drudgery" of housework. Woman no longer has to stay in the home preparing meals or minding children. One third of the workers in Russia are female. Community nurseries and public catering centralize the former household duties. It is estimated that over 75 per cent of the workers

eat their meals in factory catering establishments. Utility operations, therefore, are more likely to develop a larger "commercial load" than "residential load" under such circumstances.

FINANCING the various industries of Russia is a rather complicated arrangement and from an economic standpoint, in view of the "question-mark rouble" used in the computations, it is quite meaningless—just a bookkeeping convenience to keep track of different operations. All Russian industries are supposed to operate at a profit, but how can one be sure that the paper "profit" means anything when an electric plant, for example, may charge a cement factory so much (on paper) for a given amount of power service and quite a different amount to a shoe factory for about the same amount of service?

The roubles are not actually passed between the industries, but the power plant is "credited" so many roubles against the cement trust and so many roubles against the shoe trust. It is clear that under this system it is easy

PUBLIC UTILITIES FORTNIGHTLY

enough to make any industry show any desired amount of profit in roubles by varying the charges for and against its operations. There is a lack of uniformity in the charges for utility service to these commercial customers just as there is a lack of uniformity in charges to individual consumers. As already pointed out, even if there were uniformity, it wouldn't mean anything. The only way to gauge the profit or loss of industry in Russia is to gauge the profit or loss of the Soviet experiment as a whole. Unprofitable industries are "carried" by profitable industries, justified perhaps by social, or other, compensations.

FOREIGNERS who live in Russia may or may not pay separately for their utility services depending upon the practice where they are located. Often this service is part of their combined quarters just as in the case of the native workers. Most of the foreign technical experts who helped Russia during the first Five-year Plan have departed, not because Russia does not need their services any longer, but because the government can no longer pay them in gold or dollars. Tourists are in and out within a few weeks and stay in hotels. The State Department has made special arrangement for our diplomatic representatives residing there, but the other Americans, such as newspaper correspondents or research students, find living in Russia quite expensive.

Aside from very large cities, it is impossible to attain the same standard of living in Russia that they enjoyed in America. In Moscow a man and family may be fairly comfortable on

\$8,000 a year, obtaining with that amount a standard of living comparable to a man having a salary of about \$3,500 and living in an average large American city such as Baltimore, Md. Based on this estimate his electric service would cost him in a 4-room apartment about \$12 a month for lights and a few appliances, but that is only a conjectural figure.

IN conclusion a word should be spoken for Russian research in utility operations. It is a common argument of those opposing government ownership of utility service that it exists like a parasite upon the inventions made available by private initiative, and that it develops no new improvements because lack of monetary reward and bureaucratic red tape stunts research initiative. Fingers are pointed to European publicly owned utility plants which use almost exclusively equipment developed and designed in privately supported American research laboratories. However justified this criticism may be when applied to other publicly owned and operated utility systems, it is not fairly applicable to Russia. In the beginning of the Five-year Plan, especially in the hydroelectric development, the Soviets made liberal use of American engineering technology and equipment. Today Russia is making her own electric and telephone equipment, her own tramcars and busses, and her own cast-iron piping. In addition to this the Soviet government has been very insistent that every industry devote a specific proportion of its resources to research. A number of improvements of considerable importance have resulted.

PUBLIC UTILITY OPERATION UNDER THE SOVIETS

Footnotes

¹ Payment of worker may not only be according to his efficiency but also according to his standing in the Communist party. In some cases the advantages may be theoretical, depending upon the availability of the food, clothing, and living quarters in the sections where the workers live. Thus an "Udarnik" (a leader among workmen, a tried Communist) with specified importance in his locality or industry may receive considerably more advantages in Kasan District, than his equal in Kharkov District, for the reason that available supplies may be more scarce in the latter district.

² This is the present practice and actually the aim of a certain group of Soviets who have not as yet definitely penetrated the ultimate Soviet policy with respect to awarding the individual worker. The more orthodox Soviet policy was not to encourage any individual well-being at the expense of the whole. The more old-fashioned Soviets still preach that all Soviet citizens and even foreign Communists will find a haven in Russia, and that all Soviet citizens will be entitled to retire in comfort whether they save or not. Some foreign observers, therefore, are of the opinion that the "profit motive" in Russia is only temporary and that those who have saved for the individual well-being and old age out of their personal earnings may find, when the time comes for their retirement, that such savings will be confiscated and a Soviet pension substituted. For the present, however, there is no basic or substantial evidence to indicate that such will be the case. In the meantime, the "profit motive" among individuals continues to develop.

³ It is only the light heating type of appliances that are as yet manufactured in Russia such as irons, "hot-plates," single or double burner portable table ranges, coffee pots, chafing dishes, etc. There has recently been considerable advance made in the production of electric vacuum cleaners but there has been no manufacture of the "heavy-duty appliances" common to the American city household, such as washing machines, individual electric refrigerator, or electric water heaters, for the reason that such facilities could not be widely used under the present living conditions of most of the population. There has been considerable manufacture of very low power radio receiving sets, the bulk of which are of the "crystal set" or "one-tube sets." The supply of even these sets is, as in the case of all Russian appliances, far below the popular demand for them. Accordingly the Soviet government has, for the present at least, tended more towards community radio reception. Two or three sets are operated at various places in the city neighborhood with loud speakers of a caliber to enable a fair-sized audience to listen; in this manner the Russian

worker may elect to hear one of perhaps three simultaneous programs being broadcast. Incidentally this arrangement is very effective in carrying out the government's policy of controlling all mediums of propaganda. No matter what program the worker may select, he may rest assured that his government will be "on the air"; in fact in sections near the international boundaries the government takes active measures to see that no radio receiving sets of sufficient power are distributing or operated in a manner that would permit the citizens to listen to foreign uncontrolled broadcast programs.

⁴ The above statement might be somewhat misleading by implying that the charge for the same commodity may be more to the Moscow Miss than to the Kharkov worker. It is not upon *price* but upon *quantity* that the government discriminates between grades of workers. A loaf of bread at the workers' store will cost the same to the stenographer as it will to the steel puddler, but she cannot get as much at that price. She is allowed so much bread, while the steel worker is allowed considerably more. If the stenographer desires more than the allotted ration of bread, she may buy it at the "open market," or other intermediate grade markets, where she will pay perhaps three times as much per loaf. In the case of woolen mittens, she probably could not get them at the worker's store because such commodities are not generally available there. She could, however, buy them in the open market, but at a price so high that it would pay for the steel worker's dozen meals at his own factory eating place. Some idea as to the difference in the price of commodities between the open store and workers' stores may be gained from the fact that during 1933 throughout Russia brown bread purchased in the workers' "closed cooperative" store cost from 20 to 30 copecs for 1 kilo (2½ lbs.), while at the open government stores the same kilo of brown bread cost 50 to 60 copecs. An inferior quality of white bread during the same period sold in the closed cooperatives for 30 to 35 copecs per kilo, and at the government stores for 60 to 80 copecs for the same amount. In Moscow there are as many as five different grades of stores:

Closed cooperative: Limited quantities and selection—Low prices.

Government shops: Limited quantities, fair selection—Higher prices.

Open Market: Unlimited quantities, good selection—High prices.

Torgsin (Foreigners' Market): Unlimited quantities, excellent selection (Gold, silver or foreign currency accepted)—Highest prices.

Collective Farm Market: Agricultural surplus only—Fairly high.



The Alarmed Investor

Continuation of the threat of government competition in the power business and of government loans to municipal plants and enforced limitations on rate structures will, in the opinion of the author, endanger the value of utility securities of whatever grade or denomination.

By HUGH S. MAGILL

PRESIDENT OF THE AMERICAN FEDERATION OF UTILITY INVESTORS

Is the Federal Power Commission's assurance that adequate protection is being given the investments of widows and orphans in utility securities well founded?

The truth is that not only bonds of the utility operating companies but the common and preferred stocks of the utility operating companies as well, are seriously jeopardized as to both present market values and the future prospective values because of the present government policies in the utility situation.

Under a press release of the Federal Power Commission dated at Washington, D. C., January 11, 1935, the commission made the following statement:

It is clear that holders of life insurance policies and depositors in savings banks have no cause for concern regarding that part of the assets of such institutions invested in electric utility bonds. Widows and orphans and other beneficiaries of estates likewise are secure, provided the executors and trustees of such estates have conformed to the legal requirements which

most states have established for such fiduciary officers and have invested the funds entrusted to their supervision in the securities of operating companies and not in the stocks or debentures of holding companies or so-called investment trusts.

This conclusion was based on the fact that out of 164 electric utility bonds listed for legal investments of insurance companies and savings banks in the state of New York there was an appreciation of 6.6 points on 121 such issues between September, 1929, and November, 1934. The power commission had available in the listings on the New York Stock Exchange the bonds having the highest investment rating as to assets and earnings record within the whole electric service industry.

MANY utility mortgage bond issues of equal investment merits do not have sufficient market transactions to be listed on the New York Stock Exchange; these issues which represent the majority of bonds issued by

THE ALARMED INVESTOR

the industry were not given consideration in the power commission report. The price behavior of these bonds not listed on the New York Stock Exchange quite generally has not followed the price movement of the utility bonds traded on the Big Board. Utility bonds in the territory where government competition has actually begun have further departed from the general tendency of prime bonds, legal for investment in New York state, for example.

The reason for the price movement in prime bonds is that insurance and trust funds, restricted to legal classification, have been in abundance in the last twenty-four months, while the supply of such securities has not been adequate to meet the demand.

The legal reserve insurance companies of the country now have approximately 68,000,000 policyholders and admitted assets of approximately \$21,800,000,000. Such a vast sum as that constituting this aggregate legal reserve must be used for investment; in fact, about 9½ per cent of these reserves are now invested in utility securities.

The situation confronting the investment securities of the insurance companies has been a difficult one. For the past several years there has been little new corporate financing, and little refinancing of sound business enterprises, because business conditions generally have not warranted expansion of operations.

WHEN bonds other than first mortgages earn at least 4 per cent on the total capital structure of the utility company for a period of five years, such bonds are a legal in-

vestment for insurance companies, for example, in the state of New York. Decreased earnings have eliminated the securities of some operating companies from the legal investment classification.

SINCE the inauguration of the Federal power program, the price behavior of utility bonds has been at variance with the price behavior of other bonds. This unfortunately is not shown clearly by the usual bond indices. Moody's bond price index covering 120 domestic issues shows that railroad bonds have moved from 70.46 in January, 1933, to 98.17 in December, 1934; industrial bonds for the same period from 86.92 to 106.07 and utility bonds from 88.70 to 93.85.

The price trends shown by averages based on a large number of issues of different investment grades do not correctly indicate the price movement in the utility bond group. If the average of ten utility bond issues—all with triple A rating, listed on the New York Stock Exchange, and classified as legal for insurance investment—is taken, the price movement has been from 104.62 in January, 1933, to 108.51 in December, 1934. The triple A bonds listed in Moody's bond price index, which includes industrials and railroad bonds as well as utility bonds, moved from 105.51 in January, 1933, to 116.82 in December, 1934.

THE utility bond issues, generally ranked lower in investment merits because of more limited marketability, have shown less price appreciation than those of the highest rating. The average price of ten electric utility bond issues—each a listed first

Effect of Threat of Government Competition



"THE threat of government competition is not an idle fantasy. . . . The government has tried to indicate that the threat of government competition has not injured the underlying securities of operating utility companies. In the study of price movements of operating company bonds, it is observed that the prices have not held up where government competition has actually interfered with investor-owned operating companies."

mortgage bond, with good investment rating, on mature utility properties, well diversified geographically—has moved from 77.37 in January, 1933, to 80.10 in December, 1934. These ten utility issues are obligations of utility operating companies in territories where government competition is not present or imminent.

The average price of four first mortgage bond issues of utility operating properties in the TVA territory moved from 86.20 in January, 1933, to 76.62 in December, 1934, thus showing a marked divergence from the general trend.

The contract covering the purchase of the Knoxville distribution properties from the Tennessee Public Service Company by the Tennessee Valley Authority provides sufficient funds for the bondholders to be paid the original issuing price for the bonds to be retired.

This purchase contract established in the minds of the investing public a precedent which tended to check the depreciation in the market price of utility bonds in territories where there exists threatened or actual competi-

tion with investor-owned utility operating companies.

Continuation of the threat of government competition in the power business and of government loans to municipal plants and enforced limitations on rate structures will endanger the future value of utility securities of whatever grade or denomination, notwithstanding the present soundness of prime first mortgage bonds, despite the government's palliative inference that all prime utility bonds, qualified for legal investment, have not yet been affected by the administration's program.

ATTACKS of government officials upon the rate structures of operating utility companies have caused an uncertainty as to whether earnings of utilities could be maintained. However, the electric power companies have so far generally maintained an enviable record for earning power despite the depression, far better, in fact, than any of the other major industries.

The threat of government competition is not an idle fantasy. President

THE ALARMED INVESTOR

Roosevelt in his St. Lawrence Treaty message of January 10, 1934, stated:

As you know, I have advocated the development of four great power areas in the United States, each to serve as a yardstick and each to be controlled by the government or governmental agencies. The Tennessee valley plants and the projects in the Southeast, the Boulder dam on the Colorado river in the Southwest, the Columbia river projects in the Northwest are already under construction.¹

It is obvious, therefore, that the government intends to go into power business in competition with private citizens. If and when this threat is more completely realized the values of underlying senior bonds will be seriously affected. Besides these prime bonds, there are billions of dollars in utility common and preferred stocks now held by private investors in good faith.

SOUND financial structures do not rest on prime bonds alone. To make a sound basis for prime first mortgage bonds, there must be equities and properties upon which to predicate a bond financial structure.

¹The St. Lawrence project is yet to be approved by Congress. (February 6, 1935.)

This basis for the soundness of first mortgage bonds lies in the aggregate value of ownership financing through the medium of stock. As soon as the stocks of operating utility companies are affected adversely, the equity basis for the bond structure no longer will exist. The result will be that prime security utility mortgages will have thinner equities and will not be as valuable.

The government has tried to indicate that the threat of government competition has not injured the underlying securities of operating utility companies. In the study of price movements of operating company bonds, it is observed that the prices have not held up where government competition has actually interfered with investor-owned operating companies.

The threat exists, and misleading and partly true statements on behalf of government agencies do not lessen this threat to the investor, whether he owns prime bonds of operating companies or ownership through common or preferred stock.



Oddities about the Utilities

ABOUT 4,000,000 trees are cut annually for telegraph and telephone poles, according to the American Tree Association.

LONG-DISTANCE telephone service between Paris and Moscow, which was broken off at the start of the Russian revolution in 1917, was resumed on August 31, 1934.

UP to October 15, 1934, PWA projects had created direct employment on the railroads to the extent of 36,840,900 man-hours and had added \$20,396,000 to railroad payrolls, while equipment and materials to the value of \$100,000,000 had been purchased.

Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

CARTER GLASS
Senator from Virginia.

"The NRA is worse than the AAA."

SAMUEL B. PETTENGILL
U. S. Representative from Indiana.

"The yardstick of tomorrow must be the Golden Rule."

JAMES M. BECK
Former U. S. Representative from Pennsylvania.

"The present might be called the 'Muddle Ages,' for never was there such loose and dangerous thinking."

FRANK J. DILLON
AFL Organizer.

"We have reached the situation where we must determine whether industry is bigger than government."

JOSEPH P. KENNEDY
Chairman of the SEC.

"I have no tolerance or patience with the view that every man who has a dollar or wants to make one is a public enemy."

JAMES W. WADSWORTH
Representative from New York.

"I doubt if any government on earth could invent enough public work to employ any such vast (3,500,000) army of people."

MERLE THORPE
Editor, Nation's Business.

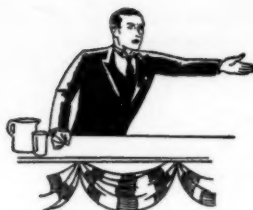
"The only difference between public ownership and private ownership is in management. In private operation managers are chosen through the well-known competitive system; in public operation they are chosen by politics."

GEN. MASON M. PATRICK
Former Chairman, District of Columbia Public Utilities Commission.

"It is to the public utilities commission that credit is due for the progressive lowering of power rates in the District of Columbia. . . . No threat of the development of a publicly owned plant ever induced the power company to lower a single one of its rates."

JOHN H. MURDOCH, JR.
Waterworks Official.

"Municipal property owned and used by a municipality in its governmental capacity is held subject to the will and whim of the sovereign state. Therefore, if you want to be sure that some Huey Long of a governor does not take charge of your municipal plant, hold fast to the principle that you are engaged in a proprietary business."



WANTED— Men to Advise and Lead

Requirements for most efficient public service by
public utilities commissions—How to improve
regulation.

By HOWELL WRIGHT

VICE CHAIRMAN, SPECIAL COMMITTEE ON PUBLIC UTILITIES, OHIO BAR ASSOCIATION

PUBLIC service commissions, said the late Yale University President Arthur T. Hadley, "should be given opportunity and encouragement to study the history of past attempts at regulation and the economic principles which have determined their success or failure. They should not be so overwhelmed with specific cases and complaints as to have no time for dealing with general questions of economic policy; they should be regarded, and should regard themselves, as expert advisers of the courts, the legislatures, and the public, on matters of vital importance to the country's future."

Few state commissions are now equipped to serve the public interest in their respective states in this manner. More commission members are needed who have real qualities of leadership; who can act, perform, execute, and direct; who can mobilize and utilize effectively the engineering, ac-

counting, legal, and business talent so essential for commission regulation.

"Expert advisers" must be men of ability, personality, and character—so forceful that not only the public will follow them, but also the governors and state legislatures, the chosen, temporary representatives of the public, when adequate appropriations are requested to make state regulation effective. Men and money are the present prime requisites for the improvement of state commission regulation and for bringing the commissions up to the high standard prescribed. A recent experience in one of our great states will serve well as an illustration of what we mean.

NOT long ago the general assembly of one of our states adopted this resolution:

1. WHEREAS, the price of commodities have been reduced from 15 per cent to 50 per cent in all parts of the state, as well as the entire United States; and

PUBLIC UTILITIES FORTNIGHTLY

2. WHEREAS, the people of the state are forced to pay the same high rate of charges that they paid in 1929 when wages and prices were high, for their lights, gas, telephones, etc.; and

3. WHEREAS, their public utilities have reduced their operating expenses by cutting wages, buying material at greatly reduced cost, and saving money in all their departments by these reductions; and

4. WHEREAS, the use of electric lights, gas, telephones, etc., have become a necessity, and unless rates are reduced, thousands of people will be forced to discontinue the use of them; THEREFORE

BE IT RESOLVED, that the members of the Public Utilities Commission be called before the House of Representatives, 68th General Assembly, to show cause within ten days why these rates have not been reduced.

The resolution is given in full because it reminds us of a very appropriate little "put and take" couplet spread out on a conspicuous billboard:

Bite off more than you can chew
Then chew it.
Tackle more than you can do
Then do it.
Hitch your wagon to a star
Hold your seat and there you are.

AND as the man looking over our shoulder said: "The trouble with most of us is that we ain't got no wagon; but we all have a cute little star picked out." The members of this general assembly all wanted to keep their seats and expected the public service commission to provide the wagon. The "prompt and full answer" by an efficient and courageous commission is the proof of the pudding. Said the commission in substance:

1. Prior to our time there was no uniformity of rates in the state and in many instances rates were materially higher than necessary.

2. Railroad and utility rates in this state have been reduced since the creation of this commission, resulting in millions of dollars of savings to the public. And for this the commission is responsible.

3. A general reduction of 25 per cent, such as you request, in rates and charges

on all railroads and public utilities in this state is legally impossible, and if an attempt were made to put such a proposed reduction into effect, and if it could be made legally, it would result in the bankruptcy of all such railroads and utilities.

4. We respectfully advise you that we know whereof we speak. We speak with authority because immediately upon the creation of this commission in 1919 we began the stupendous task of scientifically and legally valuing all the properties of the public utilities used and useful in rendering service to the people of this state, the determining of proper operating expenses, revenues, rates, and practices and the compiling of other data of every kind and character essential to enable the commission faithfully to perform its duties in accordance with the statutes. We have the facts, we know how to use them and how to present them. Our advice to you is based upon the law and the accurate data.

5. This involved, among other things, adequate, trained personnel, including investigators, appraisers, engineers, accountants, and lawyers and, above all, sufficient funds for the purpose.

6. We lacked the funds to carry on this great volume of work (over fourteen years) and consequently were compelled to require the utility companies to meet the cost running into hundreds of thousands of dollars. This cost was retired over a sufficiently extended period to prevent the same affecting the rates charged for service, and was not permitted to be put into the permanent rate base upon which rates are predicated.

7. We have been, since 1919, in daily touch with public utility operations in this state; we received regular reports showing the condition and results of utility operations; we constantly check these reports by an efficient corps of accountants and engineers to be assured of their accuracy and comprehensiveness.

8. Our policy is to require adequate and efficient service at the lowest possible cost to the consumer; we have accordingly taken action from time to time to bring about rate reductions where justified by the facts and we are now engaged in investigations for the purpose of effecting every reduction possible consistent with the protection of public interest—which includes both investor and consumer. Any such possible reductions we will promptly order.

THIS public service commission was equipped to serve, advise, and lead. It secured the money with which to perform and its answer to the general assembly constituted con-

WANTED—MEN TO ADVISE AND LEAD

structive public service of a high standard.

Only a few state commissions in this country are in such a position of strength, by reason of sheer ability and self-equipment, as to enable them effectively to decline such a positive invitation from a general assembly to provide a political "rate wagon" in which the senators and representatives may ride into office. What shall be done then to improve state commission regulation; to remedy the defects pointed out here and in our previous article published in this journal, and to enable the commission generally "to live up to the high purpose for which they were created?"

Men and money, we repeat, are the prime requirements for the improvement of state regulation. With apologies to the good old Quaker we believe that

(Public service commissions), like clocks, go from the motion which men give them; and as public service commissions are moved by men, so by them are they ruined too. Wherefore public service commissions rather depend upon men, than men upon public service commissions. Let men be good and the public service commissions cannot be bad; if public service commissions be ill, they will cure them. But if men be bad let the public service commissions be ever so good, they will endeavor to warp and spoil it to their turn.

IF incompetent commissions are placed in control of utility regulation without sufficient money or appropriations to administer the regula-

tory laws in the public interest the opportunity to warp and spoil is complete and it is usually not overlooked. If our state commissions generally were equipped with competent administrative leaders by the selective authority (the governors) and supplied with adequate appropriations by the general assembly, relatively few other important changes would be needed in our regulatory statutes, to improve the system and to restore public confidence in commission regulation. Our primary suggestions to this end may be discussed under two headings:

1. Organization and personnel.
2. Appropriations or financial support.

Some of our recommendations appear in substance in the July, 1934, report of the Special Committee on Public Utilities of the Ohio State Bar Association. Our investigations show, however, that they apply equally well to a large number of states.

Public service commissioners should be selected for longer periods of office, from eight to twelve years, and the terms arranged so that the entire complexion of the commission shall not be changed at one time. A longer term of office enables commissioners to acquire a more satisfactory knowledge of the economics of the utility industry. Qualifications for service relating to education, practical expe-



Q"It is obviously important, if rates are promptly to be adjusted to changed conditions, and without enormously expensive and burdensome litigation, that a rate base should be established which will be shown readily by the accounts of the utility, continuously checked by competent commission accountants and engineers."

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rience should be stipulated in the statute. Political qualifications should be eliminated.

By reason of custom and usage many commission members have been and are lawyers. This alone has resulted in much criticism of the system. There is a popular feeling that state commission regulation is defective primarily because of the delay and expense incident to the determination of rates to be charged for utility services and that such delay is due in part to commission rules and regulations imposing upon each party concerned what is substantially a lawsuit, involving an intricate procedure necessitating a vast amount of expert testimony.

Under the present system the proceedings are judicial in form and judicial in character—witnesses are introduced by lawyers, examined and cross-examined by lawyers, and the testimony weighed by lawyers. For what purpose? Not to determine a judicial question but to determine what prices or rates shall be charged for services. At the present time in most of the states the whole atmosphere of a commission inquiry is that of a judicial tribunal and not that of a legislative-administrative body.

While there should be at least one lawyer on every regulatory commission, we feel that the system will be vastly improved by the appointment of well-trained engineers and well-qualified accountants, business executives, or economists of wide and practical experience as commission members. The first twenty-five years of state regulation has been too legalistic and judicial.

COMMISSION salaries should be increased to attract men of the highest possible qualifications. For the chairman, \$12,000 a year, and for each of the other two members \$10,000 a year are not large salaries, for the caliber of men actually required when one considers what is expected by the public from the commissions. As a rule, except in the smaller states, most persons willing to serve for less should be doing something else for a livelihood.

Commission members should be forbidden by statute to become candidates for elective public office during their incumbency. If they want to run for office they should be required to resign from the commission. We realize that in some states membership on the public service commission is elective. We favor the appointive system (by the governor of the state), however, and believe that in the long run the public interest will be best served by fixing the responsibility for strong appointments upon the governor. Commission members, however, should be forbidden by statute to engage in politics openly or directly and should not be permitted to affiliate in any way with a political party or organization.

MEMBERS of a public service commission should be held directly responsible to the public interest and should devote their entire time to that interest and not be permitted to engage in any other activity, professional, business, or political. They should without question be removed from politics and political influence as far as humanly possible under our system of government.



Men, Money, and Law

"IF our state commissions generally were equipped with competent administrative leaders by the selective authority (the governors) and supplied with adequate appropriations by the general assembly, relatively few other important changes would be needed in our regulatory statutes, to improve the system and to restore public confidence in commission regulation."

COMMISSION regulation can be improved in most of the states by increasing the technical and engineering staffs and by adequately compensating them. An adequate staff of highly trained people (engineers, accountants, lawyers, economists) is indispensable if any regulatory commission is to serve more as an aggressive, fact-finding, planning, and administrative body, and more as a leader of public opinion and less as a judge of evidence and a hearer of complaints.

Rate making and the determination of reasonable and just rates are essentially a problem of economics and require engineering and accounting talent as well as legal talent. It is the duty of the commissions to find the facts and make a certification—to make just and reasonable rates or determine the reasonableness and justice of existing rates, without causing a loss of due process of law to either party. A more competent, better paid,

and more numerous regulatory personnel would in many states vastly improve the efficiency of the regulatory system. With a more numerous and more competent regulatory personnel it would be possible for most commissions to keep the valuation of utility properties up to date once a valuation has been made, by the inclusion of the value of any property additions occurring from time to time and a careful supervision of depreciation accounting. In other words, costs would be readily available if, as, and when needed.

It is obviously important, if rates are promptly to be adjusted to changed conditions, and without enormously expensive and burdensome litigation, that a rate base should be established which will be shown readily by the accounts of the utility, continuously checked by competent commission accountants and engineers. Under any system of regulation in its present

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evolutionary status the problem of the rate base is of paramount importance.

Commission staffs should as a rule include a research department which should be kept abreast of social and economic changes and "study the history of past attempts at regulation and the economic principles which have determined their success or failure." It should serve the commission in these respects and also gather the current and most reliable information relative to business management, engineering, etc.—and make such information constantly available to commission members in the performance of their duties. Such a department should assist the commission in its advisory relations to the courts, the legislatures, and the public.

STATE regulation of the public service corporations in accordance with the aims and high purposes prescribed, is entirely possible. In the last analysis it is a matter of money or appropriations; a matter of dollars and cents provided by utility customers or the taxpayers and made available for purposes of regulation by the appropriating authorities (the general assembly) who are chosen to represent the customers and taxpayers. It must not be forgotten that whatever may be the cost of regulation it is all ultimately borne by the public. An outstanding objective then in any serious effort to improve the present system of state regulation is in our opinion—more money appropriated and actually used for regulation.

It has been stated that the cost of state regulation has been "outrageous" in this country—perhaps as much as \$100,000,000 a year. We agree that

the expense has been enormous but suggest that it has not been an outlay for regulation as such, but more for litigation; and an outlay which has been forced and is being continually imposed upon a reluctant public by the general failure of the state commissions to function effectively in the making and control of utility rates.

Under the present system as operated the public is paying not for regulation but for litigation. Such expenditures might possibly be justified for regulation or litigation, or both, if the results were satisfactory to the public. The evidence does not reveal public satisfaction. The results might have been different, however, if, as Dr. John Bauer says, "rates were increased when properly required and decreased when fairly justified; but there are no such ready adjustments in rates according to changing conditions. Every change involves a long struggle, which in one case or during one period imposes hardships upon consumers, and in other cases or other times actual confiscation upon the companies."

DOES the public want effective state commission regulation? We believe it does, because to the public mind regulation means just one thing—rate control.

Does the public prefer rate litigation? We think not. We find it weary and dissatisfied with the long drawn-out, expensive, and frequently resultless process of rate control by litigation. What then is the remedy?

Adequate appropriations by the general assembly for high-grade commissioners equipped with reasonably permanent, well-trained staffs of engi-

WANTED—MEN TO ADVISE AND LEAD

neers, lawyers, accountants, and economists, to check, supervise, and control utility operations; experts who can value utility properties by any lawful method and keep such valuations up to date, and who can make definite and scientific rate findings which, when challenged as confiscatory, will help rather than embarrass the courts; appropriations for commissioners (business executives, lawyers, engineers, and economists) who are competent and forceful enough to take and retain leadership, as representatives of the public interest, as agents of the public, in the business of securing the greatest possible extension of utility services at the lowest possible rates.

SUCH a regulatory system and organization will in the long run prove to be less expensive. Let this need and necessity of men and money once be fully understood by the general public in any state, then there will be no doubt as to what will be the response of the appropriating authorities (the general assembly) and of the appointing authorities (the governors). High-grade commissioners will be selected as a rule, instead of rarely as at present, and sufficient funds will be forthcoming regularly in order to insure the most effective

regulation and rate control in the public interest.

Under these conditions we shall have an opportunity to observe state commissions in operation as legislative-administrative agencies, as originally conceived and under rules and regulations of practice and procedure prescribed and developed accordingly; as public servants whose duty it is to safeguard the uninformed public from exploitation by utility monopolies and at the same time to permit any well-managed utility company to operate so as to meet its obligations to all parties concerned.

Gradually we shall have full recognition by the state commissions and by the public of the principle that public utility enterprises are essentially business undertakings and that as such they must be regulated accordingly with appropriate regard for the economic factors involved. It will then become quite apparent to all that utility net income may, within limits, be increased by extending service and lowering rates; that reasonable rates cannot be secured by unreasonable governmental limitation of profits; and that the value of the service rendered principle (that is the economic value of the various classes of service) must be given renewed and increasing attention in devising rate schedules.

WESTERN states are struggling with legislative proposals for limitation of the length of railway trains. Transportation officials are generally in opposition, and hints that railroad shops will have to be closed or their activities largely reduced are in circulation.

Nevada has passed a law which limits the length of a passenger train to 14 cars and freight trains to 70 cars. This legislation was delayed and pondered in the light of a statement by officials of the Southern Pacific Railway that its shops at Sparks might have to be shut down if the law were passed.

Colorado has just passed a similar measure. A bill pending in the California legislature has the approval of committees of both the state house and senate. Arizona has had a train-limit law for some time.

—*The United States News.*

Financial News and Comment

BY OWEN ELY



Canadian Experience with Government Ownership

THE extravagance of Dominion expansion of railways in Canada, with expenditure of hundreds of millions of dollars for the building of duplicate mileage through sparsely settled territory, now seems matched by the scandals with respect to utility developments by the Province of Ontario.

Despite the fact that the Ontario Hydro-Electric Commission's system is tax-free and that part of the cost of transmission lines has been paid by the government, the rates in Ontario are shown by Federal statistics to be higher than in neighboring Quebec province with its private companies. Even with these higher rates, Ontario Hydro has, according to Dow Jones, almost entirely used up its depreciation and other reserves. As an example of government waste, the Queenstown-Chippewa development, expected to cost \$10,000,000, has actually cost about \$70,000,000, it is said.

In 1933 Hydro had an operating loss of \$4,594,455 compared with \$2,578,365 in 1932. The commission lost \$4,221,000 on power distributed by the Niagara System, and reserves of that system in three years have been reduced nearly 60 per cent. Hydro is said to have been subsidizing its municipal cus-

tomers; the cost of power supplied to Toronto in 1933 being over \$2,000,000 above that in 1930, although consumption declined. Ontario, Canada's richest province, has the worst record of municipal debt defaults, while Quebec with private ownership of utilities has had relatively few, having been aided by the taxes received from private utility plants.

THE Canadian government, instead of increasing electric rates to a level of costs, is seeking to repudiate contracts between the commission and four Quebec companies for purchase of electricity. It is proposed that the bondholders of these companies pocket the loss due to government inefficiency, by reducing coupon rates on the bonds. The four companies involved are Beauharnois Light, Heat & Power; Ottawa Valley Power; MacLaren-Quebec Power, and Gatineau Power. These companies have \$172,000,000 of bonds held by investors in the United States, Canada, and England. The bonds were sold on the basis of the Hydro-Commission's contracts which were doubtless regarded as almost a direct obligation of the Province. The bondholders have threatened to take the issue to the courts and the Canadian Bankers' Association has stated that "the banks view the situation with genuine alarm" due to the pos-

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sible repercussions of such action upon public and private credit in Canada.

The following description of "Hydro" is quoted from *Time*:

A wholesale producer of electric energy is Hydro. It sells to a few big private users but its most important function is supplying power, service, and advice to some 700 Ontario towns and cities at cost. The municipalities in turn sell power to ultimate consumers over their own local distributing system, also at cost. Founded in 1906 by Act of Parliament, Hydro is financed by the Provincial Government; but not subsidized except in rural electrification—a minor item. Its bonds are being amortized, so that eventually the municipalities will, in effect, own all Hydro's great plants and transmission lines, representing an investment of nearly \$400,000,000 free and clear of debt.

Thousands of pages have been written about Hydro, most of them dedicated to the proposition that this classic example of public ownership does—or does not—sell power as cheaply as could a private company. There is little argument about actual domestic rates; they are lower, with rare exceptions, than any in the U. S. The squabble is over technicalities like the question of whether Hydro favors domestic customers at the expense of commercial and industrial users; or what adjustment should be made for Hydro's low taxes. Most comparisons of Hydro's rates with U. S. rates are illogical because 70 per cent of Hydro's power is Niagara Falls power, world's cheapest.

Relative Position of Utility Stocks

IN 1929, utility stocks as a group were in higher favor marketwise than most industrial issues, and many issues sold at 25-40 times earnings because of the public's willingness to discount the "growth factor." But now industrial stocks are in greater favor apparently because of fears that government regulation will greatly restrict the growth of the average utility company's earnings as compared with that of the average industrial company's. According to Standard Statistics' latest compilation, on March 22nd, 232 industrial stocks were selling at 15 times the 1934 share earnings, 31 utilities at about 13 times, and 8 railroads at about 12 times.

Average yields for a large number of

dividend-paying issues compared as follows:

<i>Preferred Stocks</i>	
86 Industrials	5.9%
5 Railroads	5.3
42 Utilities	8.6
Average	6.7%
<i>Common Stocks</i>	
222 Industrials	5.2%
9 Railroads	6.1
23 Utilities	8.1
Average	5.5%

Utility Accounting—Delays and Deficiencies

ONE of the most vulnerable phases of the utility holding company, in the writer's opinion, is the lack of uniformity in publishing information on earnings and balance sheets. Thanks to national accounting standards promulgated many years ago by the Interstate Commerce Commission, railroad earnings reports while open to some criticism are nevertheless uniform, fairly complete, and timely. Earnings and expenses are reported for each month as well as for the cumulative period of each calendar year. This is of great aid in judging the current trend of earnings; while the comparison with the previous year is not always a sufficient guide to seasonal trends (since the previous year may have been affected by some abnormal condition), nevertheless the monthly figures are of great interest to investors.

Many of the large utility systems follow the practice, in issuing monthly figures, of giving only the cumulative twelve-months' result. Some others publish quarterly figures after the fashion of industrial companies, but very few seem to furnish monthly as well as cumulative results. Such monthly figures would be of particular interest in these days of rate cuts, increased expenses, etc.

The writer recently had occasion to compile the latest available earnings, in relation to interest charges, for fifteen medium-grade or second-grade utility

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bonds. The results were somewhat discouraging. While three and one-half months had elapsed since the end of the calendar year, a well-known financial service supplied earnings for the calendar year 1934 for only six companies; three others were available for the twelve months ended November, one for the nine months ended September, four for the year ended June 30th, and one apparently had not yet reported at all.

As regards the general form of income account used by the larger utility systems, this is fairly uniform and complete except that (1) revenues are not always divided between electric, gas, and other sources; and (2) maintenance expenditures are rarely separated from total operating expenses. Occasionally taxes are lumped with expenses, and depletion with depreciation.

It is easy to obtain ton-mile and other operating figures for railroads, as well as the net result of traffic and rate changes as reflected in the average revenue per ton-mile. It should be made correspondingly easy to obtain sales of kilowatt hours to leading classes of consumers, and the average revenues per kilowatt hour received from each. The figures are doubtless available at the Edison Electric Institute, for use in compiling the weekly and monthly totals and averages for the industry, and should be released in some form for the benefit of investors.

The provisions of the Wheeler-Rayburn Bill with respect to uniform accounting for utility companies seem less objectionable to the writer than many of its other drastic provisions. It might be pointed out, however, that the Securities and Exchange Commission already possesses wide powers to regulate accounting statements in connection with listing requirements. The commission has recently proceeded to remedy one long-standing defect of railroad reports, namely, the paucity of information with respect to nontransportation subsidiaries. It seems probable that the commission will take similar steps

for improvement of utility accounting methods, without necessity for additional legislation. In fact the Rayburn Bill, by dividing Federal jurisdiction over utilities among three agencies or more, might actually handicap our future progress with respect to accounting.

Depreciation—What Does It Mean?

THE old practice of disregarding depreciation as a charge prior to interest, which was the occasional practice in 1928-29 with respect to security circulars for weaker utility holding companies, now seems to have largely disappeared. But the question of depreciation policy—*i. e.*, the allowance to be made (which theoretically should amortize the loss in value over the anticipated useful life of the property) apparently remains in doubt or dispute among executives.

The theory of depreciation charges has always seemed an abstruse subject to the layman, because accounting technicians vary in the applications of the basic idea. The difficulty is largely due to varying methods of setting up plant value, in the definition of maintenance, renewals, and depreciation, the degree of allowance for possible obsolescence, etc. This has produced a wide divergence of results, which is often highly confusing to the casual student of corporation reports.

Both the railroads and the utilities have always (as a class) made very low charges for depreciation; this does not necessarily mean that (over the longer term) expenses have been arbitrarily reduced, since whenever property is retired, it is necessary to charge any excess amount (not applicable to the balance-sheet reserve) to an expense account of "renewals and replacements" or "retirements." Of course during the early stages of its life a company could make a better income showing by charging low depreciation rates; but later in life it would be penalized by having heavy retirement charges in ex-

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penses (unless part or all were arbitrarily charged to surplus, as sometimes occurs). In general the theory followed by the railroads has apparently been to charge depreciation reserve only when there was a specific accrual for the particular item retired; premature losses (or losses due to insufficient rate of accrual) have been charged to retirements and in some cases where special charge-offs for abandonments were heavy, the railroads have avoided overloading current expenses by spreading such "retirement" over several years future operations (obtaining special permission to do so from the Interstate Commerce Commission). In some cases, also, part of the charge could be applied against surplus, under the commission's rules. Recently after long delay the commission has laid down new rules, but it is not clear how substantially these will increase annual depreciation charges.

UTILITY companies appear to have been somewhat more conservative than railroads with respect to depreciation accruals, but much room for improvement remains, for charges in relation to plant values have averaged well below those of large industrial companies. The railroads have probably not averaged much more than 1 per cent per annum in relation to plant value. No general compilation appears available for utilities, but the average would probably range between 1 per cent and 3 per cent. Industrial companies, which have less use for the idea of "renewals and retirements," and more respect for the factor of obsolescence, seem to charge as a rule much higher rates. It is possible, too, that income tax considerations may play a larger rôle in industrial accounting. In any event, it is surprising to note that in 1934 Borden's depreciation charge was equivalent to more than 11 per cent on its plant value (which had just been sharply reduced in connection with a capital readjustment). General Motors made a similar charge, while U. S. Steel charged only 2.7 per

cent (or 2 per cent on original cost), presumably due in part to the different character of the business.

Among the large utility companies American Telephone and Telegraph (consolidated Bell System) is perhaps the most liberal; its 1934 charge for depreciation in relation to net plant investment was 4.7 per cent (on book value before reserve, 3.6 per cent), which compares with only .6 per cent for Brooklyn Union Gas Co. and .9 per cent for Consolidated Gas of New York. The latter company has for many years apparently adhered to the idea that it is unnecessary to provide much depreciation reserve for a well-maintained, efficiently operated property.

Figures for some other large systems (as computed by the writer) are as follows, based on 1934 reports:

	% of Net Plant Value	% of Original Plant Value
American Light & Traction ..	1.1%	1.0%
American Water Wks. & Elec. ..	.9	.8
Columbia Gas & Electric	1.8	1.4
Pacific Lighting Corp.	3.9	2.8
Public Service Corp. of N. J. ..	2.1	1.8
Commonwealth Edison Co. ..	3.2	2.8
Consolidated Gas of Baltimore ..	2.0	1.8
Edison Electric Illuminating Co. of Boston	1.9	1.7
Pacific Gas & Electric Co. ...	2.1	1.9
Southern California Edison ..	1.4	1.3
Public Service Co. of No. Ill. ..	2.2	2.0
North American Co.	2.4	2.0
Commonwealth & South. Corp. ..	1.0*	1.0*

There are, of course, several yardsticks for testing depreciation. For convenience depreciation is frequently (for rails and utilities) taken as the percentage of gross revenues; this practice, which assumes that wear and tear is dependent on the degree of use, is rather inadequate, since it makes no provision for obsolescence, natural deterioration, etc.

With respect to plant value the accounting practice is, of course, to base the accrual charge on a percentage of original book cost. For statistical purposes, however, in comparing a number of large properties of approximately equal age, the ratio of the present an-

* Based on preliminary (unaudited) figures.

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nual depreciation charge to the net plant value (after deducting the reserve) seems preferable, since it thus reflects also the adequacy of past depreciation accruals; in some cases, also, only a net figure is obtainable.

Is There a "Power Shortage"?

THE TVA has doubtless been discouraged by recent court decisions in its efforts to develop a distributing system for electricity from its huge power projects because, as Judge Grubb has pointed out, such distribution is not likely to be merely "incidental" to the government's constitutional prerogatives of flood control, irrigation, and similar public projects. TVA has apparently sought to circumvent this threatened constitutional embargo by putting its entire power development program on a "national defense" basis. Theoretically if it could be proved that another war would find us short of necessary power to produce munitions, and other necessities, this might afford the government an excuse for "temporary" sale of excess power on a large scale. Hence the hearings before the Military Affairs Committee, and the Federal Power Commission's contention that a power shortage is incipient. The commission in the first part of its interim report on the national power survey ordered by President Roosevelt, holds that early construction of new generating plants with a capacity of $\frac{1}{2}$ million kilowatt hours, equivalent to about 50 large operating stations, is imperative, such hydro or steam plants to cost about \$300,000,000. It also declares that "inefficient or obsolete plants" producing about 2,000,000 kilowatt hours annually should be replaced.

The commission holds that Federal supervision is necessary for selection of sites and the construction of plants and facilities, whether developed by public or private agencies, in order to provide "essential consideration of broad national policies."

While the commission admits that

from the short-range standpoint some surplus of power facilities exists, it is held that in many districts demand has now approached the limit of "available efficient" generating capacity. Upon resumption of "normal" industrial activity the commission estimates that about 4,000,000 kilowatt hours' capacity will be required, in excess of that in 1929.

SINCE relatively little construction has occurred since that date, existing capacity is estimated to be 2,325,000 kilowatt hours under "normal" demand. It is said:

The only regions in which substantial surpluses of capacity now exist to meet normal demand are Florida, parts of Michigan and Illinois, an area along the lower Mississippi, part of Texas, and North Dakota, Idaho, Utah, New Mexico, Montana, Washington, Minnesota, and Oregon.

With respect to obsolescence, the commission states that as of January 1, 1935, 56 per cent of the total installed steam-electric capacity was at least ten years old, about one fifth being at least twenty years old.

It is pointed out that only one major private power development and one major municipal plant are under construction, and Federal plants will meet shortages only in certain limited areas. The commission holds that the East and Middle West, where most munition factories are located, will be most seriously affected by this shortage. During the World War electric service had to be denied to domestic and commercial consumers and nonessential industries in some districts.

The commission, in emphasizing the social and national aspects of the problem, states that "It takes two years to plan and construct a large modern steam plant and from two to seven years to plan and build a large water-power project."

Public utility executives, in commenting on the commission's statements, have indicated that due to present uncertainties there is little incentive for private companies to increase construction expenditures. Industrial demand for power is currently about 10 per

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cent below the 1929 level and many areas now have the benefits of interconnection facilities effected since 1929. Clarification of the political outlook for the industry seems necessary before construction activity can get under way, because of the difficulty of gauging future earning power, which is essential for planning security flotations.

THE Edison Electric Institute, in commenting on the commission's statement, held that the United States as a whole has nearly 8,000,000 horsepower, or about 20 per cent above that necessary to carry with adequate reserves the present load. Moreover, this excess capacity of one fifth does not include the plants being built by the Federal government.

The Institute pointed out that, with respect to future national defense needs, the industry has for many years been coöperating with the War Department and is prepared at this time to meet any demands that may possibly arise under the coördinated plan for procurement of war supplies, which are designed to avoid creating a congestion in any one locality. In the supply of munitions, power plants on the Columbia or Colorado rivers, or even in the Tennessee basin, are of little or no significance. The important factor is the maintenance of an adequate coal supply at the steam generating plants in the existing industrial regions.

Vice President Barron, of Public Service Electric & Gas Co. of New Jersey, held that the capacity of its plants would meet all estimated requirements at least through 1937 and that additional capacity could be installed within twelve to fifteen months. So little use is made of obsolete equipment in carrying peak loads that there is "no possible justification" for replacing them, he said.

The Federal Power Commission, as a practical application of its theories, has asked the Attorney General to take legal action against Rocky Mountain Power Co. for failure to construct the Flathead power project in Montana li-

censed in 1930; the company in asking an extension of time has contended there is no present market for the power.

IT seems unfortunate that the question of the growth of the industry should become involved with that of war-time policies and needs. Undoubtedly, we have excess power reserves in some areas, while others can doubtless use additional or improved facilities as funds become available on an economical basis. But to put the whole question on a military basis is merely another excuse for a policy of nationalization and bureaucracy. Our experiences with war-time operations of railroads, the construction of inland waterways, etc., have been quickly forgotten.

Insull Companies' Refunding Plans

WHILE the current long-drawn-out arguments regarding bank loans by defunct Insull holding companies make doleful reading, a more cheerful note appears with respect to refunding plans of the major operating companies of that group. The following is quoted from the *New York Times*:

In 1932, the Commonwealth Edison Company of Chicago floated \$17,500,000 of 6 per cent bonds, the high rate being due to the Insull difficulties at that time. These bonds, callable at 105 within forty days, are to be refunded through an issue of 3½s, Wall Street heard yesterday, as the 6s are selling at 106 and the 5s of the same company at 111½. Public Service of Northern Illinois 6½s due in 1937, called in full for the redemption on May 1 at 101½, are quoted at 110½, but as they are convertible into 6½s due in 1952 at par plus \$50 for each \$1,000 bond, their price is due to the quotation for the 1952 issue, which is 105½. It is altogether likely that once all the 1937 bonds have been converted or redeemed, a refunding will be arranged for the 1952 series by the sale of a lower interest rate security. The Peoples Gas Light and Coke Company, third of the large utilities in the Chicago district, is not considered likely to attempt a refunding operation so long as its 6s are selling as low as 94½ and its 4s at 77.



Highlights of the Hearings on the Holding Company Bill

Excerpts from testimony of various witnesses before the Committee on Interstate and Foreign Commerce of the United States House of Representatives.

On the Rights of Investors

"**W**E thought we were doing a good thing. I think so still. But there seems to be some kind of crime attached to doing things in the way that everybody else does them, because, gentlemen, if you in this bill decide that we cannot own anything, that we cannot vote stock, that we cannot do this and we cannot do that, you must contemplate the results; unless you are willing to discriminate against us, as I think you are not, and prevent us from doing the same thing that is done in every industry in this country. You do not want to separate out this industry and say, 'You must not have holding companies; you must not do this and must not do that,' and then say, 'We do not mean that as to anybody else,' because the inevitable effect will be that it will be feared you do mean their ultimate elimination, and that is what has got business so disturbed. It is not only that this is directed against us. This bill has got the whole business world thoroughly scared, because it means the disruption of business as we now do it in this country."

—S. R. INCH,
*President, Electric Bond
and Share Company.*

"**W**E have been able to meet all demands in the past and to build ahead, where it appeared wise to do so, in order to encourage development of our territory. The problems that lie in the future require as much, or more, wisdom and foresight as those in the past. The proposed legislation which this committee has under consideration

is, in effect, a denial of the verities of things long since proved. It would undertake to force this company to go forward under impossible handicaps, at great loss to its investors and to the detriment of the territory which we serve."

—JOHN W. CARPENTER,
*President and General Manager,
Texas Power & Light Co.*

"**I** REPEAT again, that the things you of this committee claim to be fighting for are the things that we are fighting for. And, I want to say that I think your attitude toward the investor appears fair.

"On this question of propaganda, will you permit me to say this: The Declaration of Independence states that all men are endowed by their Creator with certain inalienable rights; that among these rights are life, liberty, and the pursuit of happiness, and that to establish these rights governments are instituted among men, deriving their just powers from the consent of the governed.

"Now, if a vote had ever been taken on this question you could say whether consent had been given, but I insist that no vote has ever been taken on this question, and therefore it is nothing but right and proper that these investors should let their Congressmen know what they think. And I do not believe any member of this committee would say otherwise."

—DR. HUGH S. MAGILL,
*President, American Federation
of Utility Investors.*

HIGHLIGHTS OF HEARINGS ON HOLDING COMPANY BILL

On State Regulation

"I do not consider it necessary or appropriate, in connection with this hearing, for me to undertake the defense of any state commissioners personally, or to defend the soundness of the state commission form of regulation. Suffice it to say that, shortly following the decision of the Supreme Court of the United States in the case of *Smyth v. Ames*, in 1898, which was a landmark in regulation, and, during the succeeding thirty-seven years, we have just had our forty-sixth annual convention, the state commission form of regulation has been rapidly established in most of the states, and, with few exceptions, the importance of the position of state commissioners and the responsibilities imposed upon them have been appreciated. Men of high standing, of wide experience, and ability in their communities have been generally selected for these positions, men who compare favorably, from the standpoint of character and ability, with the judges of the highest courts of the state, members of Congress, and members of various Federal commissions. My own state is fairly illustrative of what I have said on this point. The former chief justice of the supreme court of Virginia, and an associate justice both served as members of the Virginia commission until they were appointed to the appellate court. The present governor of Virginia served as a member of our commission until he became a candidate for governor. Just prior to his becoming a member of the Virginia commission, he was a member of Congress, and served as a member of this important committee, and is known personally to many of you. Indeed, it is interesting to note that, of the five members of the Federal Power Commission, two of its members served for years as members of state commissions."

—H. LESTER HOOKER,
*Chairman, Legislative Committee of
the National Association of Rail-
road and Utilities Commissioners.*

"THE railroads sell transportation. They carry from place to place goods belonging to others. The utilities are manufacturers creating a product—considering electricity as a commodity—carrying their goods to market themselves, and there are merchants selling it. They do not carry for others. A railroad car may be moved from New York to San Francisco, crossing a dozen state lines in its progress. Electric current is rarely transmitted further than from one state to its next neighbor, crossing but a single state boundary. About 85 per cent of railroad transportation is interstate and, therefore, under Federal jurisdiction. Almost the exact reverse is true of the utilities, since about 83 per cent of all electricity generated is sold and consumed in the state of its origin. The Federal government

through the Interstate Commerce Commission, has had little difficulty in absorbing control of the 15 per cent of the intrastate railroad business, on the principle that the 'tail should go with the hide,' but to accomplish the same result as to the electric utilities the tail would have to wiggle the dog."

—BERNARD F. WEADOCK,
*Vice President and Managing Director,
Edison Electric Institute.*

"EVEN if the bill be amended, as has been suggested, to permit state commissions to regulate retail rates, they would retain merely the empty shell of their present regulatory powers. Federal authority would control everything up to the 'gateway' to a local community, and the state commissions would inevitably become only minor bureaus, dominated by Federal authority and functioning merely to carry through policies laid down by it."

"As I have already said, state regulation can be, and I believe is, more intelligently responsive to local conditions than would be possible with Federal control, even aside from the fact that Federal control may have other than local objectives."

—S. R. INCH,
*President, Electric Bond
and Share Company.*

"I do not believe that the intelligent and informed sponsors of this bill hold that state regulation has completely broken down and that it must be replaced by a control board in Washington which will undertake to operate local gas and electric light plants. Such an argument suggests such a complete dictatorship and bureaucracy that I doubt the most ardent could support it."

"Such an argument finally fails by its own conclusion, for if the efforts of the regulatory bodies of the several states have failed; if the hundreds of trained men who have devoted years to the problem of regulation are incompetent; if, with their close proximity to the property and operations, they cannot succeed; if they are corrupt public officials—then who is so bold as to suggest that a handful of men could possibly be drawn together here in the city of Washington, competent, efficient, and honest though they may be, who could do a better job?"

—W. ALTON JONES,
*First Vice President,
Cities Service Co.*

"WITH respect to the request of state authorities for the preservation of state powers: Having seen all except the mere color of state power in the railroad field obliterated, and state shippers and state officials compelled to come to Washington and

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The Seattle Daily Times

DOCTOR'S ORDERS

submit themselves to the necessarily slow and expensive, and sometimes altogether unsatisfactory, processes of regulation by Federal bureaus, for the protection of intrastate business, the state commissions have not failed to ask Congress to protect the states against the possibility of any similar destruction of their powers as to other utilities."

—JOHN E. BENTON,
General Solicitor, National
Association of Railroad and
Utilities Commissioners.

"THIS bill is divided into three titles or parts—the holding company title, the

power company title, and the title which provides for regulation of the natural gas industry.

"The state commissions, represented in our association generally, wish to see the Federal government exercise its power to end the evils and abuses incident to holding company control and operation which are described in paragraph (b) in § 1 of this bill.

"These evils and abuses, as § 1 points out, are beyond the control of the states, when operating utilities scattered in different states are controlled by holding companies not organized in the states where such operating utilities are situated. The Federal power

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alone can reach these evils and abuses. The state commissioners, accordingly, favor well-considered legislation to that end enacted by the Congress.

"The second and third sections of the bill provide for regulation by the Federal government of wholesale transactions in electric power and in natural gas. These are transactions which the United States Supreme Court has held are beyond the reach of the states under the Constitution. The states have long regulated the rates charged by the local distributing companies to consumers; but they cannot reach the interstate producers supplying the distributing company.

"The rates fixed in these wholesale trans-

actions necessarily affect the rates to consumers. They are wholly unregulated. The state commissioners favor the filling of this gap by well-considered legislation enacted by Congress, which is the only body that can legislate.

"In the enactment of this legislation, however, we ask the Congress not to break down the regulation of local service rates which is now provided under the state laws. This bill in its present form would do this to a very large extent."

—JOHN E. BENTON,
*General Solicitor, National
Association of Railroad and
Utilities Commissioners.*



On the Effect of Regulation

"WE want to go on record as strongly opposed to the passage of this bill. But mere opposition to the proposed holding company bill is not enough. The position of the American Federation of Utility Investors goes much further and is specific and concrete.

"Bad as they may be, we consider the abuses that have existed in the holding company picture to be trivial in comparison with the enormous losses suffered by investors as a result of the destructive and ruthless power policy of the Federal government.

"That policy constitutes an invasion of rights of private citizens to own private property. It is a policy consciously tending toward state socialism. We demand legislation that will completely reverse the present attitude of the government toward the great investing middle class. While we believe that the thrifty middle-class citizen should be fostered and encouraged, we ask no class favors nor special privilege; we insist only that our constitutional rights shall not be violated.

"If the government persists in competing with its own citizens for the alleged purpose of setting up a measuring stick of values for power, we hold it to be self-evident that an elastic yardstick can serve no other purpose than to delude the public to justify a socialistic experiment. But we insist that the government shall get out of competition with its own citizens. We demand a return to the fundamental concepts of the proper functions of government that for 150 years have been the guide-posts of our national policy.

"Sweeping legislative reform must be had before this end can be achieved. It cannot be accomplished in a day—we have drifted

too far toward a socialistic state to undo the damage overnight. However, constructive steps can be taken immediately. We propose that the first step shall be the application of honesty to so-called 'Federal power yardsticks.'"

—DR. HUGH S. MAGILL,
*President, American Federation
of Utility Investors.*

"WRITE-UPS or write-downs, either, can have no effect on rates so long as the law of the land remains as it has been announced by the Supreme Court of the United States as its interpretation of the Constitution, *viz.*, that rates are to be determined on the basis of the fair value of the used and useful property employed in the service of the public at the time."

—S. R. INCH,
*President, Electric Bond
and Share Company.*

"THE consumers are already paying a huge sum for the regulation of public utilities. I think if we knew how much it actually amounted to we would be shocked. I am unwilling to subscribe to the necessity for additional regulation, either by the Federal government or by the states, unless the absolute necessity for it is very clearly indicated. I say this, not because I have any objection to having my companies regulated, but rather because I have a very keen appreciation of how much it costs in time and money; what its inherent defects are, and also of the fact that, in the end, the consumer pays the bill."

—LOUIS H. EGAN,
*President, Union Electric
Light & Power Co.*



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On Regulatory Improvements

“UTILITY holding companies should not be allowed to call themselves light and power companies, or by a similar appellation, unless they are actually operating companies or at least derive a substantial portion of their net revenue from retail or possibly wholesale sales made in their own names. Perhaps the same results would be accomplished by requiring them to add to their names in bold type in any use affecting securities sales, ‘not an operating company’; although I think that even might be confusing and be misunderstood; or some like qualification that would give the prospective purchaser a clearer understanding of the nature of the company’s securities that he contemplated purchasing. The ignorance of small purchasers in such cases is colossal, and nobody knows it better than I do.”

—LOUIS H. EGAN,
*President, Union Electric
Light & Power Co.*

“I FEEL, and I believe the public generally feels, that the time has come for the proper and sane regulation and reorganization of utility holding companies, but I do not believe that the drastic provision of § 10, providing for the dissolution of holding companies by 1940, or, for that matter, at any other definite date, is desirable. The harmful practices which have arisen in the utility holding company field can be avoided by regulation, and by the gradual rearrangement of holding companies into regional groups. In fact, even if there were no new legislation there would be little probability of repetition in the future of many of the abuses against which legislation would be directed.

—HENRY I. HARRIMAN,
*President, United States
Chamber of Commerce.*



On the Disintegration of Holding Companies

“THE statements made, both in the bill and in the analysis thereof, to the effect that the assembling of a number of natural gas properties, all of which are not contiguous and coordinated, has been detrimental to investors, consumers, and the general public, are obviously inaccurate.

“Because of the fact that gas must be taken where it exists in the earth and the markets must be served where the centers of population are situated, the mere statement thereof refutes the proposition that natural gas properties of a holding company should be confined to such operating companies as are related in operation and substantially contiguous in location. The natural gas pipe line extending from the Panhandle of Texas to Minneapolis and St. Paul passes through many states which are served by other gas companies, yet it could not be said that anything less than the entire operation from source to market constitutes a geographically and economically integrated natural gas pipeline system. Many other lines extend through the same territory in transporting gas from the Panhandle field, each of which is a necessary part of a system.

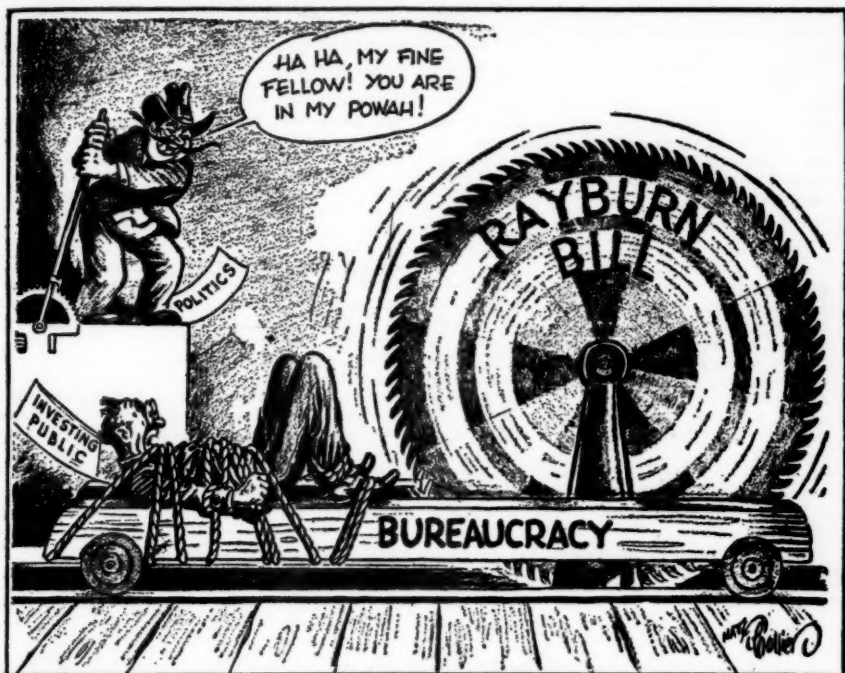
“As new gas fields have been discovered, those companies already experienced in the natural gas business have sought to develop these gas fields and extend natural gas service to communities not already served. By using their financial, technical, and management facilities and experience, holding companies have developed such new sources of supply to the benefit of the people owning

the land on which the gas was found, the states in which it was located, and the consumers who get a cheaper fuel. If a natural gas operating or holding company which had been established in the Appalachian field, where the first development took place, had been denied the right of making investments in or engaging in operations in additional natural gas fields as they were discovered, there would certainly not have been the expansion of the natural gas industry which has taken place since 1920. Those who knew how to carry on the business were naturally the ones best qualified to develop it in new fields. To attempt now to separate the ownership of natural gas properties in widely separated parts of the country would be just as sensible as to provide that no oil company could engage in the exploration and development of oil fields or the building of refineries, except in areas which are economically and geographically integrated. The necessity of obtaining the product where it exists and selling that product where the people who can buy it are located is essentially the same in both the oil and gas business.”

—RALPH W. GALLAGHER,
*Representing Standard Oil Co.
(New Jersey.)*

“MOST of the states do not permit a corporation to engage in the public utility business within that state unless it is incorporated under the laws of that state. It, therefore, follows that a corporation could

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Washington Herald

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RIP SAW LEGISLATION

not invest in a public utility business in more than one state without immediately adopting some form of holding company structure. It is often desirable that various types of public service in a given territory shall have common ownership, but state laws, or economic consideration, require a separate corporation for each type of service. There are frequently legal, practical, and economic reasons why the electric, gas, transportation, and steam-heating businesses in a single community cannot be appropriately rendered by one corporation even though all are owned by the same interests. Again a holding company type of structure would be necessary. It also frequently happens that a water-power development, a large central steam plant, or similar property, serves several different public service companies and, therefore, can most appropriately, both from a legal and accounting standpoint, be owned by a separate corporation even though its stockholders also own the stock of one or more of the public utility companies which it serves."

—FREDERICK S. BURROUGHS,
Vice President, Associated
Gas & Electric Co.

"**L**ABOR will not benefit from this act. There are at present about 230,000 people employed in the electric light and power companies of this country. These employees are and always have been, among the highest paid of any industry in the United States. In the last month of record (Dec. 1934) their average weekly earnings were \$29.85 and their average hourly earnings 77.2 cents. This was 50 per cent above the average weekly earnings of all persons employed at that time in manufacturing industries of \$19.73 per week and 38 per cent above their hourly earnings of 56 cents.

"The stability of employment has likewise been among the highest of any industry. At the lowest point of the depression it had declined by only 23 per cent from the 1929 levels, while employment had declined by 43 per cent in manufacturing industries, by 45 per cent on steam railroads, and in some special industries, such as mining, by as much as 83 per cent.

"Stagnation and rising costs in an industry never help the wage earner and the net effects of regulation have always been to reduce employment to minimum levels. The

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progressive decline in the number of people employed on steam railroads from a high point of 2,022,832 in 1920 to 948,902 in December of 1934, while not wholly attributable to regulation, nevertheless illustrates the effect on employment of a stagnant industry confronted with rising costs and decreasing rates. The same conditions will be produced by this act in the electric light and power industry and will be followed by similar conditions of employment."

—BERNARD F. WEADOCK,
*Vice President and Managing Director,
Edison Electric Institute.*

"A PART from the strength of the diversity factors of locality and business, investment capital also recognized, and still recognizes, an equally important factor in this coordination of operations, namely, that the resources of a grouping made available to the individual properties not only cheaper money and the ability to raise equity funds, but the availability of expert talent with broad experience in engineering, in construction, in accounting, in the endless directions that such a public service demands, that many individual properties could not themselves command. Part of the essence of this gain in pooling strength and weakness was and is in the very fact that it often was more than regional, was in fact a grouping of widely scattered properties, to which were brought valuable services. Of course, there were in-

dividual cases that developed independently, but these were in the larger more stabilized communities. But even there, grouping had often distinct advantages. And the independent operating properties themselves made use of the holding company facility, so that there are today few, if any, operating utility companies that do not in the flexible and proper conduct of their affairs make use of this agency."

—FRANCIS E. FROTHINGHAM,
*Representing The Investment Bankers'
Association of America.*

"WHEN we consider that the function of a holding company is to supply capital and management, it would seem logical that both can be more soundly supplied through the holding company than in any other way, and that if the holding company carefully keeps in mind the diversity factor, the holder of its securities will be best protected. Some would argue, of course, that the holding company system requires that the strong support the weak; but that principle has been so well established in society through taxation, through insurance companies, through the recent bank-insurance act and many other instances, that it needs no discussion here."

—W. ALTON JONES,
*First Vice President,
Cities Service Co.*

Who Drew the Holding Company Bill?

THE following transcript from the testimony before the House of Representatives Interstate and Foreign Commerce Committee on the Rayburn-Wheeler Holding Company Bill, February 26, 1935, indicates some confusion as to the authorship of the holding company bill.

REPRESENTATIVE WOLVERTON of New Jersey. Did you draw this bill?

INTERSTATE COMMERCE COMMISSIONER SPLAWN. No; I did not draw it.

MR. WOLVERTON. Who did?

COMMISSIONER SPLAWN. The bill as it is before you is a bill satisfactory to your chairman for the purposes of introduction and getting the inquiry started, and it represents work of many minds.

As I said the other day, title III was drawn in the office of this committee. As to the actual drafting, I believe it was by Mr. Perle, of your legislative counsel.

The policies were stated to Mr. Perle, and for the purposes of drawing the bill, as

I understand it—the chairman can correct me—he gave him the policies which were to be incorporated.

Title II, I think, had its genesis with the Couzens Bill, which was drawn five or six years ago and on which the actual drafting of which Mr. Green and Mr. Lee assisted.

Now, as to the genesis of title I, it has, as I understand it, a rather long history. A great many have contributed to it in the form in which it is before you for consideration.

MR. WOLVERTON. Who actually drew it?

COMMISSIONER SPLAWN. No one person actually drew it, Mr. Wolverton.

MR. WOLVERTON. Who were the persons who participated in drawing it?

COMMISSIONER SPLAWN. I think it was started by Judge Healy, perhaps.

Now, I may not know all of this history. There were a great many people who worked on this bill. I will give you my impressions. And then there was an interdepartmental committee called the "Power Policy Committee," upon which was repre-

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sented all of the people in the independent agencies and in the executive departments, who have anything to do with the power and gas industries, were represented. And this committee made a draft from which was redrafted this one. Then later that draft—

MR. WOLVERTON. What is the personnel of the Policy Committee to which you have just referred?

COMMISSIONER SPLAWN. As I understand, the Secretary of the Interior was chairman. Judge Healy, from the Securities Commission, was a member. Mr. Cook, in the Department of the Interior, Chairman McNinch, I believe, of the Federal Power Commission; someone, I think, from the Treasury; Mr. Lilienthal, I think, from the Tennessee Valley Authority. I am not certain about the personnel of that committee, Mr. Wolverton.

MR. WOLVERTON. Who brought the Policy Committee into existence?

COMMISSIONER SPLAWN. I think the President of the United States. That is my information.

MR. WOLVERTON. Under an executive order or by request?

COMMISSIONER SPLAWN. Well, I cannot give you the information from my own personal knowledge as to the mechanism by which that was effected. I assume that he gave—I say now that is an assumption, not knowledge—that he gave the Secretary of the Interior authority to constitute the committee.

MR. WOLVERTON. Did you participate in the deliberations of the Policy Committee?

COMMISSIONER SPLAWN. No; I was not a member of any executive department or independent agency dealing with the power industry.

MR. WOLVERTON. I am surprised at that, for I do not think anyone you have mentioned knows more about this subject than you do as a result of your investigations.

COMMISSIONER SPLAWN. I appreciate that, Mr. Wolverton, but I think that it was an *ex officio* committee.

MR. WOLVERTON. Who drew the bill?

COMMISSIONER SPLAWN. That committee, as I understand it, made the first tentative draft of title I.

MR. WOLVERTON. Do you mean that the gentlemen whom you mentioned drew the bill?

COMMISSIONER SPLAWN. I think they obtained Mr. Cohen and Mr. Corcoran to draft title I.

MR. WOLVERTON. What department of the government are they connected with?

COMMISSIONER SPLAWN. I think Mr. Cohen is in the Department of the Interior and Mr. Corcoran the Reconstruction Finance Corporation.

MR. WOLVERTON. Are their duties related to this particular subject?

COMMISSIONER SPLAWN. I do not know about that; but they were sought, as I understand it, as draftsmen by reason of their skill in draftsmanship and their knowledge of the law.

MR. WOLVERTON. Did they have anything to do with the fixing the policy as provided for in this bill?

COMMISSIONER SPLAWN. I do not know. I cannot tell about that committee. I never attended a meeting of it. I do not know. I could not give you much information except general impressions and hearsay. All that I have said is absolutely hearsay about that.

MR. WOLVERTON. I assume there are different policies that might have found expression in the bill, so that adequate regulation and control might have been effected. For that reason I am seeking to ascertain who sat in and fixed the policy upon which this bill was drawn.

COMMISSIONER SPLAWN. Well, I did not attend the meetings of that committee.

MR. WOLVERTON. Do you mean to say that you, who conducted this investigation, made this a subject of intense study, over a period of years, were not consulted as to the policy that should be set up in this important legislation?

COMMISSIONER SPLAWN. I did not consider it a slight, because I have been retained by this committee in the legislative branch and as I understand it, if anything came up it would be in the nature of a bill introduced here and would be before you, and I suppose I was regarded as your employee and this was not a legislative committee, but interdepartmental committee.

MR. WOLVERTON. I did not ask the question to determine whether there was any slight to you but—

THE CHAIRMAN (Representative Rayburn of Texas). Just a moment, if you will allow me.

MR. WOLVERTON. Yes, Mr. Chairman.

THE CHAIRMAN. Did you sit in and attend any meetings with the Attorney General, or some meetings on this bill?

COMMISSIONER SPLAWN. Yes; I did.

THE CHAIRMAN. On some phases of it? COMMISSIONER SPLAWN. Yes; Mr. Wolverton had not asked about that committee. He was asking about another one.

I do not know any more than I have said about this other committee, Mr. Wolverton.

MR. WOLVERTON. I did not ask the question with the thought that you would express yourself as feeling slighted. It would probably be apparent to the average individual if you had; but what I mean is—I have in mind that the Federal Trade Commission, by their report, indicated several methods by which these evils and abuses you have related here might be eradicated.

COMMISSIONER SPLAWN. Yes.

MR. WOLVERTON. I was, therefore, de-

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sirous to know who had determined which of the policies should be adopted as the basis of this bill.

COMMISSIONER SPLAWN. Yes.

MR. WOLVERTON. I am surprised, however, to learn that you, who made such an extensive study of the subject, did not participate in that respect.

THE CHAIRMAN. Let me say just a word, if you will, right there.

As chairman of the committee, I employed Dr. Splawn to make these inquiries. Mr. Parker employed him initially on the railroad holding company matter. I have been in contact with and have known what the Federal Trade Commission was doing for four years. I have known what Dr. Splawn has been doing about this matter. I have been in constant touch with the people who are supposed to have been drafting on a bill, and I have been in constant touch with Dr. Splawn, and I told the people who were working on the bill if they wanted me to introduce it that I wanted it to provide for the ultimate elimination of the holding companies, and that is what § 1 is written around.

(Transcript from the same hearings, March 12, 1935)

MR. WOLVERTON. Well, whose language is this?

SOLICITOR DEVANE of Federal Power Commission. It is our language, if I may say so; that is, representative of the power commission.

MR. WOLVERTON. If it is not impertinent, would you mind telling us whom "our" consists of?

MR. DEVANE. Yes, sir; "our" consists of the Federal Power Commission and its representatives.

MR. WOLVERTON. Who actually sat down and drafted that language? Do you know? You know in the drawing of any bill it finally comes down to one individual or two individuals, who actually express the policies and ideas by the use of words. Who did that as to article II?

MR. DEVANE. You are referring to title II of title II?

MR. WOLVERTON. I thought the previous answer had been that Mr. Corcoran and Mr. Cohen drew it. That is the reason I took exception to the statement of the witness that a word was ambiguous.

MR. DEVANE. Commissioner Seavey and myself, of the Federal Power Commission, were the two persons to whom the commission delegated the responsibility for this work. I would like to say, however, that to neither of us belongs the credit, if we may call it credit, for the language that is in the bill, because we have had a great deal of assistance from members of the commission and from members of its staff. This title has been worked over very seriously and earnestly.

MR. WOLVERTON. Did Mr. Corcoran or Cohen assist you?

MR. DEVANE. No, sir.

MR. WOLVERTON. They were not in the conference at all?

MR. DEVANE. In the drafting of the bill. No.

MR. WOLVERTON. How did it happen that the same language appearing in article II also appears in article I?

MR. DEVANE. You are referring now to 215 and 216?

MR. WOLVERTON. Yes.

MR. DEVANE. Sections 215 and 216 were not in the bill as drafted by the Federal Power Commission's representatives.

MR. WOLVERTON. Who put it in?

MR. DEVANE. The language that is in 215 and 216?

MR. WOLVERTON. Yes.

MR. DEVANE. I do not know who is responsible for these sections being in the bill; I can tell you who drew them.

MR. WOLVERTON. I have heard of ghost speech writers but I never heard of a ghost bill writer.

MR. DEVANE. I can tell you who drew them, sir. I drew them. I take the responsibility for drawing sections 215 and 216 as they appear here. The language that appears in 215 and 216 was taken from title I.



“WHATEVER regulation and supervision are necessary in the public interest must be extended in similar manner over all forms of transport. Each form must be given a fair chance to compete on an equal basis and expand its service through technological development.”

—W. AVERELL HARRIMAN,
Chairman of the Board, Union Pacific System.

The March of Events

Lilienthal Denies Charges; Utility Leaders Testify

DAVID E. Lilienthal, director of the TVA, flatly denied to the House Interstate and Foreign Commerce Committee recently testimony by utility executives that the TVA was a "rubber" yardstick for measuring power costs.

Lilienthal, in a brief filed with the committee, declared electric rates could be slashed probably 50 per cent if utility holding companies were abolished as contemplated in the Wheeler-Rayburn Bill. TVA, Lilienthal said, not only will pay for the big valley development, but eventually will return to the government "every penny" put into Muscle Shoals, including war-time investments.

He listed these bases for TVA electricity rates:

First—Consumers of electricity must pay all operating costs of furnishing that electricity, without any contribution whatever from taxpayers.

Second—Consumers of electricity pay taxes through the TVA rates equivalent to the national average of taxes, local, state, and Federal, paid by private-owned utilities.

Third—Depreciation and amortization are provided for, both by TVA and the municipalities.

Fourth—Interest is charged.

Objections to the Wheeler-Rayburn Bill from the Connecticut Public Utilities Commission and the Vermont Public Service Commission were read before the House Committee by John E. Benton, general solicitor of the National Association of Railroad and Utilities Commissioners.

Henry I. Harriman, as president of the Chamber of Commerce of the United States, opposed vigorously the pending bill. Others testifying against the proposed legislation included: F. E. Forthingham, representing the Investment Bankers Association; F. S. Burroughs, vice president of Associated Gas & Electric Company; H. Hobart Porter, president of American Waterworks Co.; Bernard F. Weadock, vice president and managing director of Edison Electric Institute; W. Alton Jones, first vice president of the Cities Service Company; B. W. Kerr, president of the Railway and Industrial Engineering Company, who represented the National Electrical Manufacturers' Association; Herbert A. Wagner, president, Consolidated Gas Electric Light and Power Company of Baltimore, Maryland; Ralph W. Gallagher, representing Standard Oil Com-

pany of New Jersey; N. C. McGowen, president United Gas Public Service Company, Shreveport, La.; Floyd C. Brown, vice president and general manager of the National Gas Pipe Line Company of America, Chicago, Ill.; George A. Lee, vice president, Northern Natural Gas Company, Lincoln, Neb.; R. V. Fletcher, representing Association of American Railways, Washington, D. C.; Dr. Hugh S. Magill, president American Federation of Utility Investors.

Philip H. Gadsden, vice president of the United Gas Improvement Company and chairman of the Committee of Public Utility Executives, recently replied vigorously to a radio address of Senator Burton K. Wheeler (D.), Montana, attacking propaganda against the Wheeler-Rayburn Bill.

"Senator Wheeler's emotional tirade against the public utility industry will not deceive the millions of people who would be injured by his bill to abolish holding companies and to place operating companies under virtual government management," Gadsden said.

In his radio address, Wheeler charged that a flood of letters from Philadelphia protesting the utility holding company bill "shows the fine hand of the United Gas Improvement Company."

The House Committee hearings, which began February 19th, were concluded April 15th and the Senate Committee hearings began the following day. The Senate Committee hearings were not expected to last as long as those before the House Committee.

Senate Receives TVA Bill; House Hearings End

THE Norris bill, designed to "clear up any doubts, raised by a Federal court decision asserting the government under the TVA could not go into the business of selling power in competition with private utilities, recently was approved by the Senate agricultural committee, according to the *Associated Press*.

The measure specifically provides authority for TVA to acquire existing transmission lines and facilities to supply farms and villages with electric power directly from such lines.

Meanwhile, the House Military Affairs Committee completed its hearings on bills strengthening the powers of the Tennessee Valley Authority with a 3-hour sharp cross-examination of David E. Lilienthal, TVA director.

Among other things the questioning brought testimony that TVA's monthly payroll is

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\$1,000,000, that it will continue at this figure until some time in 1938, and that land is being acquired at an average cost of \$50 an acre.

Lilienthal stanchly denied that TVA's primary objective is the manufacture and sale of electric power, or that TVA had tried to induce industries in other regions to move to the Tennessee valley with promises of cheap power.

To inquiries about TVA's publicity department, Lilienthal said about ten men were employed to prepare press releases, reply to inquiries about the project, and answer questions of visitors.

Extracts from his speeches were read to Lilienthal and he was asked to comment on them. With regard to one article which he wrote in 1928 praising the contribution of holding companies in supplying capital to operating utilities, he said, smiling, "I've learned a great deal since I wrote that."

Lilienthal said that while he considered flood control and the prevention of soil erosion TVA's major objective, he was "not suggesting that we're not vitally interested in the power program."

Representative McLean (R.) New Jersey, asked if TVA contemplated "supplying anybody within a reasonable distance who will construct a municipal power plant with all the power they need?" When Lilienthal answered in the affirmative, Representative McLean said:

"As I read the act, you were only to play with the surplus power. But under your plan, you're going to build a dynasty to guarantee electrical power forever."

The witness said he wouldn't agree "with that statement of our objective."

Lilienthal said the reason for the sale of power was to "liquidate the cost of building the dams."

Dr. Arthur E. Morgan, head of TVA, said TVA's "coördinated" program would supply electric power for 3½ mills per kilowatt which, he said, was the lowest rate for power in America.

The TVA directorate feels justified in writing off some construction costs for navigation because of the Tennessee river's "tremendous possibilities" for navigation, TVA Chairman Arthur E. Morgan told the committee.

Morgan admitted navigation on the river is now negligible, but said that because of natural resources of the area and salt mines just north of the valley, he was convinced there was "a great future" for river navigation.

Representatives of power companies renewed their opposition to extension of the TVA before the House Committee.

E. A. Yates, vice president of the Commonwealth & Southern Corporation, said his group in recent years had made considerable progress in rural electrification.

He contended his associated companies

could serve adequately the area supplied by the TVA.

Motor Carrier Bill Passed

IN record time the Senate recently passed and sent to the House the first of the Eastman-Wheeler transportation measures, imposing Interstate Commerce Commission regulation over all for-hire motor bus and truck lines, according to *The Washington* (D. C.) *Post*.

Debated in committees for nearly eight years, the bus-control measure passed the Senate in less than two days.

The bill requires common motor carriers to obtain certificates of public convenience, and contract motor carriers to secure permits from the Interstate Commerce Commission. Brokers dealing in transportation services, but not employed by operating companies, would be licensed. Rates would be regulated.

Passage came despite opposition from shippers, and a number of strong farm organizations.

Wheeler told the Senate the bill is designed to equalize competitive conditions between the bus and truck lines and the railroads, the latter already being subject to ICC regulation.

The Wheeler bill went beyond the scope of the measure originally proposed by Federal Transportation Coördinator Joseph B. Eastman, giving the Interstate Commerce Commission additional authority to regulate maximum hours of employees and safety requirements for equipment.

Urges U. S. Own Railroads

OUTRIGHT government ownership and operation of the railroads, beginning next January, was proposed recently by Senator Wheeler, (D.) Montana, chairman of the Senate Interstate Commerce Committee, in a bill introduced in the Senate, according to *The New York Times*.

His plan provides for a Federal corporation to take over the nation's carriers. The corporation would exchange its stock and debentures for the existing securities of the railroads on the basis of their current market value and the 1930 earnings.

Senator Wheeler, long an advocate of public ownership of utilities, has been working on the bill since before Congress convened. In drafting it he has conferred with Joseph B. Eastman, Federal Coördinator of Transportation.

Power "Pools" Recommended

CREATION of "pools" of electric power was suggested by the National Power Survey in its second interim report as one means of meeting the shortage which it foresees when

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industry revives, according to *Universal Service*.

This would reduce the number of new plants required, the survey said.

Studies are being made which go beyond physical interconnection of systems to "proper coordination and unified operation of the properties."

Interconnection between the Philadelphia region, where the Philadelphia Electric Company is installing a large plant, and the Washington-Baltimore area was recommended for study.

Further interconnection between the New

York metropolitan area, for which a surplus was estimated, and Central New York, where a shortage was foreseen, was suggested "if feasible."

The Southeast will be short of power capacity until TVA's Norris and Wheeler dams are completed, the survey said.

More interchange of power was recommended for the Puget Sound region.

Additional interconnection also was favored in California. The Central valley project, planned by the state, "would meet for some time in the future additional requirements for power in southern California."

Arizona

Questions Rate Cut Order

A SUPPLEMENTAL order by the corporation commission providing for a reduction in rates charged by the Central Arizona Light and Power Company for house lighting as set up in a previous order of March 9th in which the company announced reductions totaling \$200,000 a year, recently was disapproved in part by the attorney general, according to the *Phonix Gazette*.

Declaring that the supplemental order gave "unlimited power to the light and power company," Attorney General John L. Sullivan questioned two clauses in the March 29th proposal. One guaranteed that the power company's "legal rights" would not be impaired or forfeited except as to rate and refund. The other stated that the proposed rates "shall remain in force and effect for such period of time as shall permit the respondent (power company) by actual experience to test the adequacy and reasonableness thereof."

The first clause, the attorney general said, would immediately throw both March 9th and March 29th orders into court with trouble

in prospect for the state if it tried to enforce either order. The second, he charged, made the matter of time so indefinite as to give "unlimited power" to the light company.

An original order providing for a new set of light and gas rates was issued by the corporation commission May 11, 1934. The light company refused to accept them and brought injunction suits in Federal court to restrain them from going into effect. The corporation commission issued an amended order March 9th. A proposed order amending the order of March 9th was submitted to the attorney general March 29th.

Electric Light Rate Cut

DIRECTORS of the Salt River Valley Water Users' Association recently announced a reduction of approximately 10 per cent will be made in rates of all classes of electricity, effective immediately, to those buying directly from the association, according to the *Phonix Gazette*.

An estimated saving of \$26,000 annually will result for the 4,253 consumers, officials estimated.

Arkansas

Water Rates Soar

TO create a reserve fund from which to pay maturing principal and interest on the \$1,650,000 loan to construct Fort Smith's new water project, the city commission has increased water rates approximately 25 per cent, according to the *Arkansas Gazette*.

Although work on the water project will not start for several weeks, the new rates were put into effect in compliance with PWA requirements for building up a reserve.

The new rate fixes a minimum charge of \$1 a month, compared with the present 75-cent

minimum. The higher schedule will be applied to bills rendered to consumers in May.

Municipal Plant Defeated

HARRISON recently voted 388 against and 370 for a \$130,000 bond issue for the erection of a municipal light and power plant, according to the *Arkansas Gazette*.

The Arkansas Power and Light Company, which holds the present franchise, has been seeking a new franchise, effective in 1937.

Prior to the election the city filed suit, asking \$100,000 actual and \$50,000 punitive dam-

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ages from the Arkansas Power and Light Company for publication of statements of indebtedness which the city officials allege are untrue and detrimental to the city's credit.

Lasley Heads New Commission

THE state utilities commission, created by Act 324 of 1935 to take over the powers and duties of the fact-finding tribunal, elected P. A. Lasley, former chairman of the tribunal, as chairman of the new body, and reemployed all personnel of the tribunal at an organization meeting recently, according to the *Arkansas Gazette*.

Members of the commission, in addition to Chairman Lasley, are Dean W. N. Gladson of Fayetteville, engineer member, and Joe Bond of Little Rock, accountant member. They were appointed by Governor Futrell. Dean Gladson was appointed for two years,

Lasley for four, and Bond for six. Mrs. Bernice Gentry, secretary and reporter for the tribunal, was elected secretary of the commission.

The new commission acquired jurisdiction of all pending cases and will continue investigation of rates of the following utility concerns: Citizens Light and Power Company, Tuckerman; Southwestern Bell Telephone Company, at El Dorado; Mansfield Gas Company, Mansfield; Arkansas Power and Light Company, electric, water, and light rates in 21 towns; Arkansas General Utilities Company, water rates at Smackover, and water and light rates at Warren.

The new law increased the special utility tax for support of the rate-making body from \$2 to \$4 per \$1,000 gross receipts. The increased rate will be applicable to 1934 income, but companies that have paid the lower rate will be given credit for such payments on the new rate.

California

Passes Truck Regulation

A TRUCK bill that would place trucking on highways under the jurisdiction of the railroad commission was passed recently by the Senate, according to the *San Francisco Chronicle*. The vote, 30 to 8, was taken after a day of debate.

The bill, introduced by Senator Hays Fresno, would place all contract trucks using the highways under the commission, which would have to fix "maximum and minimum" rates for trucking.

Water Plan Recognized

THE U. S. House of Representatives recognized the Federal government's interest in California's Central valley water and power projects by passing the omnibus rivers and harbors bill, which authorizes \$12,000,000 toward its cost. No money was appropriated, according to the *Los Angeles Times*.

The bill would authorize expenditure of \$272,000,000 on 205 projects, 77 of which al-

ready have been begun with public works funds. Of this amount a total of more than \$16,000,000 would go for improvement of eleven California waterways.

Power Utility Seeks Writ

APPEALING to the state supreme court, the San Joaquin Light and Power Company recently sought a writ of prohibition against the Fresno County Superior Court and Judge Frank Lamberson to prevent them from enforcing a judgment handed down on February 6th, in which the company is ordered to cease storing certain water of the North fork of the San Joaquin river, according to the *San Francisco Chronicle*.

It is alleged in the power company's petition that the judgment is invalid because the Fresno County Superior Court lacked jurisdiction in the case.

The contention of the petition is that under the Public Utilities Act the company is ordered to continue supplying electricity until ordered to desist by the railroad commission.

Indiana

Offer New Rate Schedules

A NEW schedule of rates for thirty-six Indiana towns was proposed recently to the public service commission by three utilities, the Northern Indiana Power Company, the Traction Light and Power Company, and

the Public Service Company of Indiana, according to *The Indianapolis News*.

The utilities said the new schedule would bring savings of from \$38,000 to \$45,000. They also said the schedules were similar to those asked by the towns in a petition filed some time ago.

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Kansas

Approves Rural Electric Rate

A NEW rural electrification rate has been approved by the state corporation commission, according to *The Topeka State Journal*. The rates apply to rural lines and are to be tested by the Kansas Gas and Electric Company of Wichita.

Under the new schedules the corporation would compute rates on the basis of \$18 per month from each mile of rural line. The distribution would be according to the number of patrons or their demands for service. The new rate for electricity, of course, is a minimum and must be guaranteed by patrons along the line.

Louisiana

Phone Rates Fight Continues

THE full bench of the supreme court recently denied the application of Senator Huey P. Long as counsel for the public service commission for writs to stop a devolutive appeal granted the Southern Bell Telephone and Telegraph Company by Judge W. Carruth Jones of East Baton Rouge parish in connection with the commission's telephone rate reduction, according to *The Times Picayune*.

Judge Jones previously, after hearing the suit instituted by the telephone company, refused to grant the telephone company an injunction to restrain enforcement of the rate reduction order.

Commenting on his application, Senator Long asserted that "what the telephone company is trying to do is to get its case before the United States Supreme Court." Senator

Long contended in his application that the telephone company had exhausted its legal remedies before the state supreme court.

The public service commission recently instructed New Orleans Public Service, Inc., in the local electric rate inquiry to strike from operating expenses in the future annual payments of \$47,000 it has been making to the city of New Orleans, politically hostile to Senator Huey P. Long, for, electric meter inspections and supervision, according to the *Associated Press*.

The action was taken upon recommendation of Senator Long who is serving as counsel for the commission in the hearing upon an order of the commission to ascertain why electric rates are not lower in New Orleans.

Long told the company that the city ordinances providing for the fee would not hold and "this is a new day."

Maine

Quoddy Project Up Again

A \$30,000,000 Federal allotment for the long-discussed Passamaquoddy power project has been tentatively approved by Public Works officials, according to *The New York Times*.

Secrecy has surrounded the progress of plans for harnessing the rushing 27-foot tides which originate in the Bay of Fundy in order to supply more power for Maine, New England, and perhaps New York. Conflicting reports of approval and disapproval have been current for many weeks.

PWA engineers filed a report on Passama-

quoddy some time ago in which they held that the project was feasible from an engineering standpoint, but expressed doubt as to whether there would be a market for the power to be developed.

In view of this report great plans for the development, calling for the expenditure of \$100,000,000, were curtailed, and Maine's application as finally filed for \$47,000,000 has been reduced to \$30,000,000.

The Passamaquoddy project involves not only harnessing of the power of the unusually high tides but also construction of an aluminum and stainless-steel plant to provide a commercial outlet for such power.

Michigan

Voorhies Appointed to PUC

APPOINTMENT of Paul W. Voorhies, of Detroit, former attorney general under Gov-

ernor Wilber M. Brucker, to the public utilities commission has been announced by Governor Fitzgerald, according to *The Detroit News*. Voorhies succeeds Norman M. Snider,

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of Detroit, appointed by Governor William A. Comstock, but not confirmed by the senate.

Seeks City Plant Approval

ON reprisal for the refusal of the Detroit Gas Company to delay putting into effect increased rates, Mayor Couzens and Council President Smith recently urged the council to take the necessary steps to enable the city to acquire and operate the property of the Detroit City Gas Company, according to a

statement published in *The Detroit News*.

Their proposal, made before a large gathering of city officials and mayors of cities and villages throughout the metropolitan Detroit area, came as a complete surprise even to council members, as the purpose of the meeting had not been announced.

This first definite move toward municipal ownership of Detroit's gas distributing system, Couzens explained, comes as a result of breakdown in negotiations between the gas company and the city over the fixing of gas rates.

Nebraska

Plan Light Plant Purchase

THE St. Paul (Nebraska), city council is preparing to issue light bonds for purchase of the Central Power Company plant within the city, regardless of the outcome of

an appeal from a condemnation board evaluation on the property pending in district court, according to the *Nebraska State Journal*.

The city will proceed with its plans to take over the plant, regardless of the price determined by the court.

New York

Power Board Proposes State "Grid" System

THE trustees of the New York State Power Authority in their fourth annual report submitted to Governor Herbert H. Lehman and the legislature recommended the coordination of all power generating facilities in the state, with complete development of the St. Lawrence and Niagara resources, and interconnection of privately owned facilities through a statewide "grid" system. The system would be operated under a state authority, according to the *New York Herald Tribune*.

To place the state in a better bargaining position for the accomplishment of the plan, the trustees recommended that the legislature at its next session enact the following legislation:

1. Amendment to the law to authorize the Power Authority to construct, own, and operate transmission lines to connect with the various municipalities which, under the municipal utility bill, may vote to operate their own electric systems.

2. Enactment of legislation authorizing the creation of power districts, so that cities, villages, and rural areas may combine to assure all homes and farms in the state the full advantages of public competition.

The report was signed by Frank P. Walsh, chairman; James C. Bonbright, vice chairman; Fred J. Freestone and George S. Reed, and Leland Olds, executive secretary.

The report criticized the Niagara Hudson

and the Consolidated Gas systems, headed by Floyd L. Carlisle, for allegedly charging rates based on inflated values and excessive for service rendered. The report said flatly that those corporations which virtually dominate the production and distribution of electric energy in the state were placing obstacles in the way of the state's proposed program.

Favors Rate Cut Offer

MAYOR LaGuardia took the first step recently toward accepting the rate reduction offered by the Consolidated Gas system for current used by the city for lighting streets and buildings, according to *The New York Times*.

Following a conference with Floyd L. Carlisle, head of the Consolidated system, at city hall, the mayor announced that he had ordered the readvertising of bids for the current. The city rejected the bids made last December on the ground that the rates were exorbitant.

New bids are necessary before the company can submit, in legal form, the rate reduction offer it has already made. After the statutory period for advertising bids, the new offer will be accepted by the city, according to every indication.

The Consolidated system charged the city \$9,861,000 for its current in 1934, and tried to raise the charge to \$10,561,000 for this year. It has been reported, and not denied, that the last formal offer by the company was for a 35 per cent reduction in the charge for build-

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ing lighting and about a 25 per cent reduction for street lighting. Informal computation indicated that the new bids would be at least \$2,500,000 lower than those submitted last December.

Carlisle recently went to Albany to urge legislation which he said would enable rate cuts totaling \$3,000,000 to consumers in New York city.

He specifically requested action on the Merger Bill, passed by the senate and sent to the assembly, which would permit utility companies to merge if 95 instead of 100 per cent of their security holders consented.

The measure was recommended by the special legislative investigating committee and was sponsored by Senator Dunnigan, the committee chairman.

Vote Utility Probe Fund

THE assembly recently passed by 120 to 20 the bill recommended by Governor Her-

bert H. Lehman appropriating \$300,000 for the public service commission to meet deficiencies in the revolving fund created a year ago to pay for investigations of public utilities' rates, according to the *New York Herald Tribune*.

The Fitzgerald bill carrying out another of the governor's utilities regulation recommendations, requiring consumer deposits to be turned into the state treasury if unclaimed ten years after disconnection of service, also passed the lower house.

The assembly also passed a bill bringing all publicly owned or publicly operated industries and facilities under the code provisions of the National Industrial Recovery Act.

The Killgrew bill, carrying out Governor Lehman's recommendation permitting municipalities to issue revenue-producing undertakings and revenue bonds on self-liquidating Federal projects not to be made a debt against the municipality, but only against the revenue from such projects, also passed the assembly, it is reported.

North Dakota

Slashes Electric Rates

SHARP reduction in electric rates, ordered by the railroad board for application at Grand Forks, will cut the revenue of the company from \$345,000 to \$247,146 annually.

The commission ordered reduced rates in two brackets of electricity in residential use only, and also lowered rates for use of appliances and domestic power, with the remaining rates untouched.

Reduced rates ordered in effect for residential use of electricity were: First 3 kilowatt hours per room per month, 6 cents per kilowatt hour, a reduction of 5 cents, and for the next 3 kilowatt hours per room per month, 5 cents per kilowatt hour, a reduction of 3 cents.

The action for the electric rate reduction was brought against the utility company by the city of Grand Forks, on September 14, 1933.

Ohio

Rate Subject to Inflation

AN inflation clause, said to be the first demanded by a utility company, has been inserted in the agreement whereby Toledo Edison Company agrees to reduce rates 22 per cent to domestic users and 20 per cent for street lighting, according to *The Wall Street Journal*. The reduction was granted after the city council threatened to use PWA funds to build a municipal plant, and will result in a \$500,000 loss in revenue to the company annually. The ultimatum would have expired April 15th.

The inflation clause was demanded because of the nation's uncertain monetary policy, the company explained.

The council is expected to accept the agreement.

Ordinance Cuts Gas Rates

MANSFIELD gas users would benefit to the extent of \$225,000 under a 3-year gas rate ordinance recently adopted by the city council, according to the *Columbus Evening Dispatch*. The new rate provides for a refund of that amount and a rate of \$1 for the first 500 cubic feet and 50 cents per thousand for all over 500.

The Sandusky city commission recently passed an ordinance fixing for three years the rates for natural gas to be supplied by the Ohio Fuel Gas Company.

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Oregon

Commissioner States Program

NO new investigations of the larger public utility corporations will be attempted this year, Frank C. McColloch, state utilities commissioner, recently declared.

"It will be the purpose of the commission to complete all investigations now in progress as rapidly as possible," McColloch said. He also declared there would be no "harassing" of utilities in the future.

The practical effect of the policies adopted by the new commissioner will be:

The 4-year investigation of the California-Oregon Power Company valuation and rates will be dropped.

The power company already has expended

\$71,000 in conducting the probe, while the state has spent \$50,000. This investigation is 40 per cent completed.

Litigation involving the Pacific Telephone & Telegraph Company valuation and rate case will be rushed to a completion.

Similar action will be taken in connection with the investigation of the Northwestern Power Case, involving the so-called Electric Bond & Share companies.

There also will be a completion of the probe involving the Mountain States Power Company.

McColloch said he intended to establish a valuation system under which the inventories of all utilities would be reported to the commission every three months.

Pennsylvania

Extend Commission's Power

AMENDMENTS to the existing public service law were introduced in the house recently, according to the *Pittsburgh Sun-Telegraph*.

Proposed legislation would put gasoline and oil industries under the control of commission; give the commission authority to ap-

prove contracts made by the utilities for permanent investment, and pass on loans by a holding company to a public service company.

Intended to extend the power of the commission and make it possible to correct abuses growing out of the utility industry, the measure is intended to limit the profit of the underliers to 6 per cent.

Rhode Island

Agree on Electric Rate Cut

ELECTRIC rate reductions, expected to bring a saving of \$450,000 annually to residential and small-business consumers in the state, have been agreed on by representatives of three major power companies, Governor Green and Frederick A. Young, chief of the

division of public utilities, according to *The Providence Journal*.

Companies making the reductions are: the Narragansett Electric Company, Blackstone Valley Gas and Electric Company, and the Newport Electric Corporation.

The new rates became effective on bills rendered April 8th and thereafter.

South Carolina

Duke Merger Approved

THE public service commission has approved the proposed merger of the Duke Power Company and its subsidiary, the Southern Public Utilities Company, both of which operate in South Carolina.

The order provides that the Southern Public Utilities Company be reorganized under

a charter of the state of New Jersey with an identical capitalization of the present company of 210,000 shares of par value stock at \$100 each; to convey to the reorganized company all of the property of the existing company; the new company to issue to the Duke Power Company 210,000 shares of stock in exchange for a like amount of stock in the old company now held by the Duke Company.

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Texas

Light Plant Loan Rejected

FORT Worth's application for a \$2,228,000 PWA loan and grant for construction of a municipal light and power plant has been finally denied at Washington, according to *The Dallas Morning News*.

The public works engineers at headquarters found the project economically unsound and that the loan would not be reasonably secured as required by the National Industrial Recovery Act.

The application had previously been disapproved but was resubmitted.

The proposed plant was to supply city lights, all municipal departments, and commercial users in the downtown area.

Propose Utilities Commission

A BILL to create a public utility commission emerged from the subcommittee into the state affairs committee and thence into the

senate all in one evening recently, and such prompt action was said to presage an early and fast movement of the measure through the senate, according to *The Dallas Morning News*.

The bill differs in many particulars from the house bill written by Dr. Montgomery of the university of Texas and sponsored by the Allied administration.

The bill reported to the senate would create a public utility commission of three members. The commissioners would be appointed by the governor for terms of six years, made overlapping, and the technical and other help would be appointed by the utilities commission.

Differences between the house and the senate bills, however, are so marked that, assuming passage of each by the respective houses considering them, it is impossible to figure what would be the final results of submission to conference. Passage of any utility bill at the regular session began to look like an improbability, according to the *News*.

Wisconsin

Municipal Plants Lose, 4-2

MUNICIPAL ownership of electric light and power utilities was defeated recently in four out of six Wisconsin communities voting on proposals to take over property of private companies, according to *The Wisconsin State Journal*.

The only two places where public ownership advocates won out were Suring, Oconto county, where the vote was 143 to 69 for purchase of the local plant of the Wisconsin Public Service Corporation, and Poynette where the issue carried, 241 to 177, for purchase of the Wisconsin Power and Light Company property.

At Platteville, voters defeated the utility purchase, 1,184 to 717. A second referendum ballot, providing for a bond issue to finance the purchase, also was defeated by a wide majority. The electric utility in Platteville is owned by the Interstate Light and Power Company.

The vote in Platteville was exceptionally heavy because of the intense interest aroused over the utility issue and the three-cornered race for the assembly vacancy. Exactly 1,901 votes were cast on the utility issue.

The three other communities where municipal ownership proposals were defeated are Tomah, which defeated the proposition by a three to one vote; Beaver dam, which turned down municipal ownership by nearly two to one; and Gillette, Oconto county, which bal-

loted 223 to 175 against acquiring the property of the Wisconsin-Michigan Power Company.

Retroactive Rates Voted

THE assembly recently passed a bill recommended by the League of Municipalities which permits making orders of the public service commission retroactive to thirty days after the notice of investigation is served by the commission, according to *The Wisconsin State Journal*.

The bill is to remedy what the league claims is often a great advantage to the utilities in that they are able to maintain rates for long periods by dragging out inquiries. Under this measure the league says new rates can be made effective and refunds compelled from thirty days after petitions for the changes are filed, as the notices of investigation are generally sent out soon after the petitions are presented.

The cradle phone order is cited particularly as an illustration of postponed rates. It was several years after complaints were filed before an order was obtained reducing added charges.

Another assembly measure would limit appointments to the public service commission. The bill provides that appointee must be a public utility man, another a railroad man, and a practical bus man. Many look upon the bill as a measure to force restrictions of the governor as to his selections.

The Latest Utility Rulings

Federal Court Has Jurisdiction Where State Provides No Plain Remedy

WHAT constitutes a "plain" remedy in the courts of a state so as to deprive a Federal district court of jurisdiction over rate orders of a state commission? This question was dealt with in a recent Federal court decision relating to an order of the Oklahoma commission. The court decided that there was not a plain remedy in the courts of the state.

The Johnson Act does not withdraw from the lower Federal courts jurisdiction over all rate orders of state commissions, but it withdraws jurisdiction where a "plain, speedy, and efficient remedy may be had at law or in equity in the courts" of the state. This seems to necessitate a determination of the question whether such remedy exists in each of the states which regulates public utility rates.

The Constitution of Oklahoma creates a corporation commission and clothes it with regulatory power. Appeals from the commission are to the supreme court of the state. A section of the Constitution provides that when the court, upon appeal, shall reverse a commission order, it shall at the same time substitute therefor such order as, in its opinion, the commission should have made.

Counsel for the public utility company argued before the Federal court that the decision of the supreme court is legislative in character, and that a

judicial review is not accorded. Counsel for the commission argued to the contrary, and also argued that the constitutional review by the supreme court is judicial if it affirms the order, and legislative if it modifies it, and that a legislative review by a court fulfills the requirements of due process.

The Federal court did not agree that a legislative review is all that is required by the Federal Constitution, nor would the court accede to the argument that due process is accorded if the review by the supreme court of the state is construed to be judicial if it affirms the order, and administrative if it reverses or modifies the order. Circuit Judge McDermott said:

A remedy is neither plain, speedy, or efficient where a litigant does not know whether he has had a judicial review until he has lost his case.

Decisions by the state supreme court were cited as authority for both sides of the question whether a judicial review can be had in Oklahoma, but the court concluded that, until the supreme court of the state determines that the laws of the state afford judicial relief in some state court of an order of the corporation commission affecting rates chargeable by a public utility, the Federal court is not deprived of jurisdiction by the Johnson Act. *Cary v. Oklahoma Corporation Commission*, 9 F. Supp. 709.



Notice and Hearing Necessary before Commission Alters Rate Order

An injunction has been granted by the circuit court, Montgomery county, restraining the enforcement of an order of the Alabama commission reducing rates of the Southern Bell Telephone & Telegraph Company on

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the ground that the order was void for lack of notice and hearing. The state attorney general and the attorney for the city of Birmingham conceded that the statutory notice and hearing had not been given, but the court, as a matter of courtesy to the commission, heard at length arguments presented by Hon. Hugh White in support of the order.

The commission insisted that no notice or hearing was required preliminarily to the right of the commission to promulgate an order on March 4, 1935, reducing exchange telephone rates because, in a prior order of January 13, 1934, there was incorporated a provision that full jurisdiction of the proceeding was retained for such further orders as might be found just and reasonable, the commission reserving the right to issue further orders upon the evidence in the record or upon such evidence and supplementary evidence as might be added thereto.

The court declared that the commission is a creature of the statutes of Alabama, having only the rights and powers and subject to all the restrictions and limitations therein contained.

Aside from the Code sections construed by the court to require notice and hearing, not only as a precedent to original orders, but also as to supplementary orders, the court was of the opinion that inherently a public utility whose rates are to be investigated is entitled to a notice and a hearing in order to accord it due process under the law. Circuit Judge Jones said:

The decisions to this effect seem to be uniform and hold, not only that the public utility or transportation company must be afforded an opportunity to be heard, but also to explain any and all evidence that it may be required to adduce. Further, that a public service commission or other like body, which is not only a fact-finding body, but a *quasi* judicial body, deprives a public utility or transportation company of due process of law if such hearing and opportunity to explain its evidence be not afforded it, or if the public service commission, in a pending case, undertakes *ex parte* to introduce in the evidence exhibits or reports that may have been, under legal requirements, filed with that body by the public utility or transportation company at a time later than the hearing.

Southern Bell Telephone & Telegraph Co. v. Alabama Public Service Commission et al.



Rate Reduction Order Presumed Reasonable and Injunction Denied

A DISTRICT court of Louisiana has dissolved a temporary restraining order and denied a preliminary injunction against the operation of the recent order of the Louisiana commission reducing rates of the Southern Bell Telephone and Telegraph Company. A Louisiana statute requires a determination of the propriety of the issuance of a preliminary injunction within three days. The court remarked that it could not read, much less study, in three weeks, and certainly not in three days, the voluminous records of the proceedings before the commission, supplemented by numerous affidavits and exhibits.

On the face of the record the hearing

appeared to have been complete and exhaustive, and the court said that it would not undertake to interfere with the commission unless convinced that the company's legal rights had been invaded or that the rates fixed were unreasonable, unjust, discriminatory, or extortionate, since there was a presumption that the commission had acted with justice to all parties concerned in adopting the order, and after fair and complete hearing.

The court was not prepared from a necessarily limited examination of the record to say that the commission had erred. Under such circumstances, it was said, the court would not be justified in substituting its opinion for that

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of the commission as to the reasonableness of the order. *Southern Bell Telephone & Telegraph Co. v. Louisiana Public Service Commission.*



Massachusetts Department Denies Approval of Contracts for Gas

THE Massachusetts Department of Public Utilities has dismissed petitions for the approval of contracts for the sale of gas by the Boston Consolidated Gas Company to the Cambridge Gas Light Company and to the Worcester Gas Light Company on the ground that the evidence submitted did not clearly satisfy the department that the contracts should be approved.

No provision was made in the contracts for subjecting the gas prices to review and determination by the department. There was an intimation at one of the hearings from counsel of one of the companies that it would accept a modification to the effect that the prices paid should be subject to a review at certain definite periods during the 15-year period of the contracts. However, no definite amendment to the contracts was submitted, and in view of a statement that all contracts were dependent upon each other, the department was constrained to pass upon the contracts as submitted. Under such conditions, it was said, approval ought to be exercised with extreme care, to the end that changing conditions would not result in imposing burdens upon ratepayers.

The opinion was expressed that the department ought not to approve the contracts unless it was clearly proven that benefits to the consumers would be derived therefrom and that no burdens would be imposed upon the customers of the Boston Company. It was shown that if the contracts had been in effect from 1929 to 1933, in three out of the five years the Cambridge Company could have produced gas in the holder at a lower cost than it would have had to pay for gas under the terms of the contract, and in two of the years the difference was substantial. The department said in part:

The evidence does not disclose a situation in either case where a company is confronted with the necessity of incurring large capital expenditures in the building of a new plant or in the reconstruction of an obsolete one in order to efficiently produce its supply of gas. Such a situation would present an entirely different question. Then it might appear clearly that the consumers would be required to sustain less of a burden by the purchase of gas than by making necessary capital expenditures, with the consequent increased fixed charges in interest and taxes.

Re Boston Consolidated Gas Co. et al. (D. P. U. 4852, 4853).



Municipal Plant Rates Fixed without Allowance for Profit

THE New York commission, after further hearings, has established rates for the Boonville municipal electric plant in harmony with the principles announced in its earlier decision (*Customers of Electricity v. Boonville* (1934) 5 P.U.R.(N.S.) 298) without allowing any profit or return to the village because the entire bond issue to build the plant had been retired. The commission said:

It seems to us that the primary purpose for which municipalities are organized is to furnish service, which includes electricity in this case, to the public as economically, efficiently, and satisfactorily as possible. Its primary object is to make these modern conveniences and necessities available to its residents at as low a rate as it reasonably can. The profit motive should not enter into the consideration, and the commission believes that it is against sound public policy to accumulate profits from the operation of municipal plants over and

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above all costs and suitable reserves, so that such profits may be transferred to the village funds and used to pay taxes or to promote other municipal projects. This is indirect taxation on ratepayers who are not necessarily the same persons as the taxpayers, or where identical, who do not pay electric bills in the same proportion that they pay tax bills. This policy was laid down by Governor Lehman in a veto message in 1934, relative to amending the village law in Nassau county.

It is believed that a just and reasonable rate to be charged for electricity by a municipal plant should be based strictly upon actual costs, including proper and necessary reserves. Stripped of all its legal technicalities and determined upon a fair and equitable basis, a just and reasonable rate is

one that includes the cost of rendering the service, such cost to include all charges actually incurred, and not theoretical charges.

Again, the commission believes that the making of rates for municipalities should not be encumbered with all the proof as to reproduction cost and the many imaginary and conjectural elements that have been presented to regulatory bodies making rates for private companies. One of the reasons for distrust of regulation is the time consumed and the expense necessary to obtain reproduction costs, and to determine all the theoretical considerations urged upon commissions.

Customers of Electricity v. Boonville
(Cases Nos. 7426, 7593).



Plan Suggested to Preserve Unprofitable Gas Utility

THE Missouri commission, in considering proposed gas rates at Pleasant Hill, Holden, and Kingsville, found that the Interstate Gas Company, the Pleasant Hill Gas Company, and the Interstate Pipe Line Company (all related) shared in the furnishing of service, but that rates were insufficient to produce any return. With the prospect of a higher cost at the fields because of a diminishing supply at a low cost field, it was unlikely that revenues would be sufficient even to meet operating expenses. The commission made suggestions for the purpose of preserving the service without compelling operation at a loss.

The commission recognized the fact that it should not require the companies to devote their properties to the public use for an indefinite period of time without any return whatever to the owners.

The suggestion was made that a new corporation be organized which would take over the property. The new corporation would file a rate schedule sufficient to produce operating expenses and provide for depreciation reserve fund. Since this would deprive the company of the opportunity to earn any return, the rates should not extend for a period of time longer than six months. The

commission stated that if at the end of six months the business of the company was not increased to such an extent that revenues from increasing business might earn the company at least some slight return upon its property, the commission would then entertain an application on behalf of the company to abandon the service entirely. The commission continued:

On the other hand, if the people affected by the possible abandonment of this property desire the further continuance of the service and are able to aid in promoting the increased consumption of gas in their respective communities to such an extent as will materially increase the revenues of the company, the commission will require the company to file new rate schedules at intervals of six months which will result in dividing the increased revenue over and above that necessary to pay operating expenses and the depreciation requirement, equally, permitting the company to retain one half of such increase as a return on its property and to reduce its rates in an amount equal to fifty per cent of such increased revenues. This practice should continue until the revenues of the company have so increased that fifty per cent of such increase will represent a fair return on the property, after which time all subsequent increases in revenues should result in corresponding rate reductions.

Re Interstate Gas Co. (Case Nos. 8833, 8850, 8851).